S. Hrg. 98-969

THE ISSUE OF CORPORATE BUYOUTS OF FAMILY FARMS

HEARING

BEFORE THE

SUBCOMMITTEE ON SMALL BUSINESS:
FAMILY FARM

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

ON

THE ISSUE OF CORPORATE BUYOUTS OF FAMILY FARMS

AUGUST 1, 1984

Printed for the use of the Committee on Small Business

U.S. GOVERNMENT PRINTING OFFICE
38-125 O WASHINGTON : 1984

S721-20

COMMITTEE ON SMALL BUSINESS

LOWELL WEICKER, Jr., Connecticut, *Chairman*

BOB PACKWOOD, Oregon
ORRIN G. HATCH, Utah
RUDY BOSCHWITZ, Minnesota
SLADE GORTON, Washington
DON NICKLES, Oklahoma
WARREN RUDMAN, New Hampshire
ALFONSE M. D'AMATO, New York
BOB KASTEN, Wisconsin
LARRY PRESSLER, South Dakota

DALE BUMPERS, Arkansas
SAM NUNN, Georgia
WALTER D. HUDDLESTON, Kentucky
JAMES R. SASSER, Tennessee
MAX BAUCUS, Montana
CARL LEVIN, Michigan
PAUL E. TSONGAS, Massachusetts
ALAN J. DIXON, Illinois
DAVID L. BOREN, Oklahoma

Robert J. Dotchin, *Staff Director*
R. Michael Haynes, *Chief Counsel*
Alan L. Chvotkin, *Minority Chief Counsel*

Subcommittee on Small Business: Family Farm

LARRY PRESSLER, South Dakota, *Chairman*

ALFONSE M. D'AMATO, New York

SAM NUNN, Georgia

CONTENTS

Statement of Senators—

Page
- Baucus, Hon. Max, a U.S. Senator from the State of Montana 29
- Pressler, Hon. Larry, a U.S. Senator from the State of South Dakota and chairman of the Subcommittee on Small Business: Family Farm 1

Statement of—

- Hollerud, Richard, general partner, Consolidated Family Farms, accompanied by William McGrath, general counsel 48
- Miller, James C., assistant legislative director, the National Grange 24
- Sacia, Paul R., assistant director of legislative services, National Farmers Union 17
- Southard, Hon. Jeffrey S., deputy attorney general, State of Kansas 30
- Woodland, DeVon, president, National Farmers Organization 6

HEARING DATE

August 1, 1984:

- Morning session 1

THE ISSUE OF CORPORATE BUYOUTS OF FAMILY FARMS

WEDNESDAY, AUGUST 1, 1984

U.S. Senate,
Subcommittee on Small Business: Family Farm,
Committee on Small Business,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room SR 428A, Russell Senate Office Building, Hon. Larry Pressler (chairman of the subcommittee) presiding.

Present: Senators Pressler and Baucus.

Staff present: R. Michael Haynes, chief counsel; Mel Ustod, legislative assistant to Senator Pressler; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA AND CHAIRMAN OF THE SUBCOMMITTEE ON SMALL BUSINESS: FAMILY FARM

Senator **Pressler**. The hour of 10 having arrived, I will open this hearing and thank everyone for being here.

Let me say first of all that this is a hearing to find some facts. I do not want to condemn anyone or be unfair to anyone. We want to hear the witnesses in an unbiased way. The problem of agricultural finance is an enormous one. We have never in our history, perhaps, had so much difficulty in financing family farms, and small businesses. It also carries over into a lot of other areas in the economy that are analogous.

Young people wanting to start farming need a source of financing, and the high interest rates and very difficult credit situations have caused many to consider alternative methods of financing. I had a young dairyman say to me recently—who had some partners who are in the law world and in the corporate world—there was no other source of financing and actually this "helped me get started."

I don't want the tone of this to be condemning anyone. I want it to be getting facts. That's what we're here today to do.

It is, of course, an objective and a goal of mine to preserve the concept of the family farm. I come from one myself. Our system of agriculture, I think, is the most productive in the world because we have farmers who actually live on the land and own it. They own the livestock and get up at 5 a.m. because they have a direct interest in the farm. The collective agricultural system and other types of agricultural systems in foreign countries haven't worked. They're not as productive.

We pay much of our foreign trade bill with farm products. Even though our farmers are somewhat divided, the grain farmers are free traders and the meat farmers are more protectionistic. But regardless of that, our foreign trade bills today are paid with agricultural products because that's one area we can compete in the world markets. It's one area where we're very productive. In fact, farmers are among the lowest paid, but most productive, members of our society.

There are many changes occurring in agriculture, and some of those changes I agree with and some I do not. Agriculture is in great trouble. As we hear on national television about the recovery, about prosperity, we do not hear so much about the trouble in the farm economy.

In my home State of South Dakota, where I go on weekends and have listening meetings, during my 10 years in Congress serving in the House and the Senate I have not heard so many stories about the difficulties that farmers and ranchers are having as I have heard this year.

We do have in my State an unprecedented number of bankruptcies and other difficulties. Many of these troubles spring from credit, trying to finance these family farms and ranches. Let me also say that the things that we're talking about carry over to small business as well. In the national economy, high interest rates sometimes benefit big corporations that can capitalize, while their competitors can't. buy goods and buildings as well because the small competitors don't have access to money. What we're talking about here today is credit and access to money and how we're going to finance agriculture.

I have a prepared statement which I will place in the record.

[The prepared statement of Senator Pressler follows:]

STATEMENT OF
SENATOR LARRY PRESSLER
SMALL BUSINESS COMMITTEE: THE FAMILY FARM
AUGUST 1, 1984

I WOULD FIRST LIKE TO WELCOME ALL OF THE WITNESSES AND THANK YOU FOR PARTICIPATING IN THIS HEARING. THE INTENT OF THIS HEARING IS TO GATHER ADDITIONAL INFORMATION ABOUT A PROPOSED PLAN BY THE CONSOLIDATED FAMILY FARMS TO ENTER INTO A LIMITED PARTNERSHIP WITH FARMERS. IN RECENT WEEKS, THERE HAS BEEN A GREAT DEAL OF MEDIA ATTENTION TO THIS PLAN AND MANY OF THE NATIONAL FARM GROUPS AND STATES HAVE EXPRESSED CONCERN ABOUT THE PROPOSAL.

WE WILL BE EXPLORING THE DIFFERENT CONCERNS OF THE FARM ORGANIZATIONS, AS WELL AS THE REASONS WHY VARIOUS STATES HAVE TAKEN THE ACTIONS THAT THEY HAVE IN REGARD TO THIS SITUATION. FINALLY, WE WILL HOPE TO HEAR MORE DETAILS ABOUT THE CONSOLIDATED FAMILY FARMS' PLAN AND ANSWER MANY OF THE QUESTIONS THAT HAVE BEEN RAISED.

I BELIEVE THE REASON THE AMERICAN FARMER HAS BECOME THE WORLD'S MOST PRODUCTIVE PRODUCER OF FOOD AND FIBER IS THE LAND OWNERSHIP AND MANAGEMENT SYSTEM THAT WE HAVE. THE BACKBONE OF THAT SYSTEM IS THE FAMILY FARMER. GENERALLY, THE FAMILY FARMER EITHER OWNS HIS FARM OR AT LEAST A PORTION OF IT. IN ANY EVENT, THE GOALS OF MOST FARMERS ARE TO ONE DAY OWN THEIR OWN FARM. THIS DREAM AND THE CLOSE TIES TO THE LAND THAT IT FOSTERS HAS MADE THE AMERICAN FARMER WORK HARDER TO PRODUCE FARM PRODUCTS AND MAKE A PROFIT. INDIVIDUAL FARM OWNERSHIP ALSO FOSTERS BETTER STEWARDSHIP OF THE LAND.

As Chairman of the Family Farm Subcommittee, I have a particular interest in how the Consolidated Family Farms' plan will affect the family farm system and the entire rural community. Plans such as that of the Consolidated Family Farms are of special concern because of the continual decline in the number of farmers and the rising percentage of farmland owned by non-farm interests. The number of farms has declined since 1935 when the total number of farms reached 6.8 million. In 1978, the number of farms had declined to 2.4 million. Also, by 1978, the percentage of farmland owned by non-farm interests had increased to 35 percent of all farmland and 87 percent of the farmland rented. If several investor groups would acquire several hundred family farms, then the percentage of farmland owned by non-farm interests would increase dramatically. If this trend continues, the dream of a farmer to one day own his own farm might become an impossible dream.

I am well aware of the current economic problems many farmers are facing and the fact that many farmers would do almost anything to remain on the family farm. In some cases, a limited partnership with a non-farm interest might help a farmer, but it is essential that the farmer's interests are protected in any such venture. In many cases, a farmer's love for the land might cause him to make a bad business decision. For this reason, it is important that we provide farmers and the entire public with as much information as possible about the plans of groups such as the Consolidated Family Farms.

Coming from a family farm myself near the farm community of Humboldt, South Dakota, I have a great concern about the future of our small, rural communities. In most cases, these small

TOWNS DEPEND ALMOST ENTIRELY ON THE SURROUNDING FARMS FOR THEIR LIVELIHOOD. CURRENTLY, THESE SMALL TOWNS ARE HAVING TOUGH TIMES AS FARMERS ARE SUFFERING THROUGH SOME OF THE MOST DIFFICULT TIMES IN YEARS. IF SEVERAL FARMERS IN A COMMUNITY JOINED A GROUP SUCH AS THE CONSOLIDATED FAMILY FARMS AND PURCHASED THEIR FARM NEEDS FROM LARGE SUPPLIERS, THIS WOULD MEAN THE END OF THE LINE FOR MANY SMALL-TOWN FARM SUPPLY BUSINESSES AND THE CONTINUED DECLINE OF THEIR RURAL COMMUNITIES. IT APPEARS THAT WITH THE DECLINING NUMBER OF FARMERS, THIS MAY EVENTUALLY HAPPEN, BUT IT IS IMPORTANT THAT WE KEEP THE TRADITION OF THE SMALL-TOWN COMMUNITY IN MIND.

WITH THOSE GENERAL COMMENTS, I WILL CALL THE FIRST GROUP OF WITNESSES.

Senator **Pressler**. Let me say that the purpose of this hearing is to get the facts and to listen to different points of view on this controversial issue. Then we will make a judgment in terms of the need for legislation or the need for administrative action.

We can't take the attitude that different ideas are bad without substituting a form of credit or a form of help for our family farmers.

The reason that American farmers have become the world's most productive producers of food and fiber is the land ownership and management system that we presently have. The backbone of that system is the family farmer and rancher. Generally speaking, the family farmer either owns his farm or at least a portion of it.

In any event, the goal of most farmers is to one day own their own farm. This dream and the close ties to the land that it fosters has made the American farmer work harder to produce farm products and make a profit. Many of our current farmers and ranchers at one point started out with some form of partnership as they moved toward their own ownership.

As chairman of this Family Farm Subcommittee, I have a particular interest in how the Consolidated Family Farms plan will affect the family farm system and the entire rural community. Plans such as that of Consolidated Family Farms are of special concern because of the continual decline in the number of farmers and the rising percentage of farmland owned by nonfarm interests. The number of farms has declined since 1935, when the total number of farms reached 6.8 million. In 1978 the number of farms had declined to 2.4 million.

Also, by 1978 the percentage of farmland owned by nonfarm interests had increased to 35 percent of all farmland, and 87 percent of the farmland rented.

If several investor groups were to acquire several hundred family farms, then the percentage of farmland owned by nonfarm interests would increase dramatically. If this trend continues, the dream of a farmer to one day own his own farm might become an impossible dream.

I am well aware of the current economic problems many farmers are facing and the fact that many farmers would do almost anything to remain on the family farm or ranch. In some cases, a limited partnership with a nonfarm interest might help a farmer, but it is essential that the farmer's interests are protected in any such venture. In many cases, a farmer's love for the land might cause him to make a bad business decision. For this reason, it is important that we provide farmers and ranchers and the entire public with as much information as possible about the plans of groups such as the Consolidated Family Farms.

If several farmers in a oommunity joined a group such as the Consolidated Family Farms and purchased their farm needs from large suppliers, this could mean the end of the line for many small-town supply businesses and the continued decline in their rural communities. That is also something of concern.

In many small towns there is almost a direct dependence upon agriculture, and the small businesses that exist there depend on selling to those farmers. It appears that with the declining number of farmers, this may eventually happen, but it is important that we keep in mind the tradition of the small-town community.

With these general comments, I will call the first group of witnesses. And the first group of witnesses are: DeVon Woodland, President of the National Farmers Organization; Paul Sacia, of National Farmers Union; and Jim Miller, of the National Grange, whom we will hear from at this point.

Gentlemen, we thank you for being here, and we very much appreciate your willingness to testify. We will place your entire statements in the record. If you could summarize as much as possible, it would be appreciated. We would like to hear from you for about from 5 to 8 minutes each, and then we will have questions.

I will first call on Mr. Woodland, the president of the National Farmers Organization.

STATEMENT OF DeVON WOODLAND, PRESIDENT, NATIONAL FARMERS ORGANIZATION

Mr. **Woodland**. Thank you, Mr. Chairman.

Senator **Pressler**. Just pull that microphone nice and close there.

Mr. **Woodland**. Thank you. I am DeVon Woodland, president of the National Farmers Organization. I own and operate a family farm in southeast Idaho. The National Farmers Organization is committed to collective bargaining for the welfare of the family farm and ranch.

I want to express my appreciation to the chairman for calling these hearings at an extremely busy time, on this issue of acquisition of nonfarm investor groups such as the Consolidated Farm group. We commend the committee for its decision to investigate the public policy implications of this buy-out venture and the impacts they are likely to have on the family-operated farms and ranches and the small businesses that do serve them.

Now, the information that we have is basically from public announcements and from statements filed with the Securities Exchange Commission. We don't pretend to have the expertise to discuss all the legal technicalities of this very complicated plan, but we understand it well enough to know that it leaves many questions unanswered by families who may be considering this as a participant.

We think there are many steps being taken at the present time for deeper corporate involvement into the production sector of agriculture, which we think is a drastic error. We become increasingly alarmed when we discover the plan calls for public trading of shares of America's family farms. We find it hard to believe that our Nation has reached the point where nobody does anything when its farms are converted into shares to be bought and sold like oil drilling tax shelters and/or real estate investment trusts.

We believe elected officials who are committed to protecting the public interest and committed to a system of private ownership, not only of farms and ranches but private ownership of small business, should rise to the occasion and stop such proposals as this.

We decided to ask Congress to investigate this plan because of the concerns expressed to me by many farmers during my recent travels across the farm States. We have become increasingly aware of the new land acquisitions by limited partnerships set up by nonfarm investors to shelter income from taxes. We have become used to seeing this kind of involvement in agriculture by professional athletes, entertainers, movie stars. But it appears now that almost anyone with a good income is being invited to participate in such a scheme. Apparently, no one keeps track of these shelters, and they receive little or no publicity. So when the public announcement of Consolidated Family Farms was made, I felt it was important to bring it to the attention of Congress and ask them to review these proposals.

I realize it's going to be an uphill fight, recognizing that the off-farm income debate in regards to investors who are sheltering tax income during the Senate debate made little progress even though it was recognized there would be $2.6 billion over the next 2 years that the Treasury would be shorted.

Now, the Consolidated Family Farm has announced it will use shares per farms swap to gain title to several hundred thousand acres of farmland in the next few weeks. It may be able to accomplish this due to a large number of debt-burdened farm families who have little prospect of staying in business on their own and they would surrender title to their farm in exchange for some units and a chance to lease the operation back on a cash-rent basis.

The partnership has indicated that it has already been asked to review more than a million acres in some 30 States. If that response is as indicated, we can expect nonfarm investors to set up hundreds of these plans in the coming months.

We are not asking for a judgment to be made as to whether or not a family should become involved in this kind of an arrangement, nor are we asking or about to criticize a family that is compelled by dire economic circumstance to consider such a scheme.

But we must recognize that 3 years of high interest rates and depressed farm income have brought on the debt and a cash flow that is driving thousands of farms and ranch families out of business.

Some may see this buy-out-lease-back plan as their only chance to hang on just a little longer. Normally, a farm family wouldn't touch an arrangement such as this.

Based on information available to us at this time, participating families will receive no cash in this transaction and will assume a large cash-rent obligation guaranteed by a lien on their crop. They will give up management and have no protection against having the land sold out from under them. Ten percent of the equity will go to the broker and the investor. Most of the potential participants believe units will be publicly traded and that they will receive cash distributions as a return on that investment.

These statements in the documents filed by SEC raise some questions:

One, no trading market exists for the units, and it is possible that no trading markets will exist at any future time;

Two, there can be no assurance as to the distribution of cash which will be available for distribution and, consequently, no assurance that distribution will in fact be made;

Three, since unit holders will be required to include their shares of partnership income for tax purposes without regard to whether there is a distribution of that income, the unit holder may become liable for Federal and State tax income on that income even though they have received no distribution from the partnership with which to pay the taxes.

We also urge that you consider the statements that suggest the Consolidated Family Farm will farm some of the land itself or have it done through custom agreement and that it will make bulk purchases of insurance and other farm supplies, and it apparently has not provided a procedure for a family to buy back its own farm and there appears to be no real assurance that that family that participates will even have the right to stay on his own farm.

Now, these possibilities threaten to reduce the number of families in the community and have an adverse impact on the small businesses in that community.

We also want to raise some serious public policy issues regarding the impact of this plan on our American system of family agriculture. We believe, for example, that plans of this kind will speed up the trend to complete absentee ownership of farmland in this country. We don't believe it's fair to allow tax-avoidance partnerships to use their unfair economic advantage to move in on debt-ridden farm families and take over their land. We don't feel the government can justify subsidizing these wealthy investors with tax-shelter benefits while refusing to provide debt restructuring, lower interest rates, and other debt relief for farm families in trouble.

We are not convinced that groups of well-heeled businessmen operating through tenants or custom operators, who have no personal interest or involvement except trying to dodge taxes, can come close to managing farms as efficiently as our present system of owner-operators.

We also believe that this plan makes it possible for nonfarm corporations making excessive profits elsewhere to buy up units and become dirertly involved in large-scale tax-loss farming. It appears to us that this is nothing more than a complicated scheme to shelter income of rich people from taxes that take advantage of down-and-out farm families unable to sell their farms in a depressed market, and to make it easier for nonfarm investors to get around the restrictions of State corporate farm laws to buy up farmland, and to allow these groups to cash in later on appreciation in the value of farmland through the capital gains provisions. None of these results appear to provide any benefits for either agriculture or the general public.

We also want to remind the subcommittee that this is not the first time such a large-scale land-takeover operation has been challenged at the Federal level. The tax avoidance and absentee ownership issue was discussed in 1977, known as ag land fund I. We are not suggesting to you that Consolidated Family Farms is in violation of any Federal law. However, Iowa State Attorney General has ruled the plan illegal under Iowa corporate farm statutes, and is reported to have serious problems in other States.

It seems to us that Congress should assume some responsibility for what is happening. It has done little in recent years to curb tax-loss farming and the gradual expansion of corporate involvement in agriculture, to stop the steady loss of full-time, family-operated farms and ranches.

The Federal Government has created the political climate and the economic conditions that encourages ventures like this. In our opinion, this is the heart of the problem.

In short, there appears to be an undeclared war on small business and rural America, from all sides. And rural America is asking Congress for help. We realize this is not a legislative subcommittee and that there are no bills or resolutions on this subject today. But our specific request is this:

One, use the resources of this committee and of agencies like IRS and the General Accounting Office to fully investigate the number and the type of plans of this kind proposed or already in operation, their likely impact on family agriculture and small rural business;

Two, the extent of their drain on the Treasury and the kinds of legislative action that would be necessary to effectively stop the unfairness of such a procedure.

For example, would you ask the IRS to disclose the number of limited partnerships with multiplying ownership of land and ranch that have returned—filed returns in each of the last 5 years?

Knowing the identity of these operations is not that important, but we feel it's important that Congress know the impact and the numbers of this type of program.

In closing, let me express our concern for our friends on Main Street. These small-town business people are our partners, and we hesitate to see the further weakening by bulk purchasing of farm supplies and other practices usually carried out by large absentee owner operations. And our small-town business entrepreneurs are dependent on rural America and the farmer particularly for their stability.

Thank you, Mr. Chairman, for this opportunity to discuss our concerns. We urge you and your colleagues to give continuing attention. We hope we can generate enough support in Congress to close these farm-related loopholes and help reverse the economic down trend in rural America.

[The prepared statement of Mr. Woodland follows:]

Statement by
DeVon Woodland, President,
National Farmers Organization,
Before Subcommittee on
Small Business: Family Farm,
Senate Small Business Committee,
August 1, 1984

I want to express my appreciation to Chairman Pressler for holding a hearing at this busy time on the issue of farm acquisitions by nonfarm investor groups like Consolidated Family Farms. We commend the subcommittee for its decision to investigate the public policy implications of buy-out ventures of this kind. We urge you to use the findings in assessing the impact they are likely to have on family-operated farms and ranches and the small businesses that serve them.

The information available to us comes primarily from a public announcement of the formation of Consolidated Family Farms and a registration statement filed June 28 by James S. Rudnick, its agent for service, with the Securities and Exchange Commission. We do not have the expertise to discuss all the legal technicalities of this complicated plan. But we understand it well enough to know that it leaves many questions unanswered for families thinking about becoming participants. We also view it as another one of entirely too many steps being taken toward a corporate takeover of the production sector of American agriculture.

We became alarmed when we discovered that this plan called for public trading of shares in America's family farms. We find it hard to believe that our nation has reached a point where nobody does anything when its farms are converted into shares to be bought and sold like an oil drilling tax shelter or a real estate investment trust. We believe officials elected on platforms that are committed to a system of family-operated farms and ranches should rise to the occasion and stop proposals like this.

I decided to ask Congress to investigate this plan because of concerns expressed to me by farmers during recent travels in farm states. I have become increasingly aware of new land acquisitions by limited partnerships set up by nonfarm investors to shelter income from taxes. We have become used to seeing this kind of involvement in agriculture by professional athletes and movie stars. But it appears now that almost everyone with a good income is being invited to get in on it.

Apparently no-one keeps track of these shelters and they receive little or no publicity. So when Consolidated Family Farms went public with its plan, I saw it as an opportunity to dramatize this problem and try to get Congress to help bring the whole thing to a head.

We realize this is an uphill fight. We are aware that a proposal to put a limit on the amount of off-farm income that investors could shelter through farm losses got nowhere in the Senate during its recent debate on the tax bill. It was pointed out then that farming of the tax code will cost the Treasury more than $2.6 billion over the next two years. If new and different ventures like Consolidated Family Farms get by the IRS and the SEC, it will open the door to even more of this kind of tax avoidance.

Consolidated Family Farms has announced that it will use a shares-for-farms swap to gain title to several hundred thousand acres of farmland in the next few weeks. It may be able to accomplish this due to the large number of debt-burdened farm families that have little prospect of staying in business on their own. They would surrender title to their farms in exchange for some units and the chance to lease the operation back on a cash-rent basis.

The partnership has indicated that it has already been asked to review more than one million acres in 30 states for possible participation. If the response is as favorable as this report suggests, we can expect nonfarm investors to set up hundreds of these plans in the coming months.

We are not asking you to make a judgment about whether or not a family should become involved in this kind of arrangement. Nor am I about to critioize a farm family that is compelled by dire economic circumstances to consider such a scheme. Three years of high interest rates and depressed farm income have brought on a debt and cash flow crisis that is driving thousands of farm and ranch families out of business. Some may see this buy-out lease-back plan as their only chance to hang on a little longer.

Normally a farm family wouldn't touch a deal like this. Based on information available to us at this time, participating families will not receive any cash in this transaction, will assume a large cash rent obligation guaranteed by a lien on their crops, will give up all management decisions connected with their operation, and will have no protection against having the land sold out from under them. Ten percent of their equity will go to real estate brokers and the investors controlling the partnership. Most of the potential participants believe the units will be publicly traded and that they will receive cash distributions as a return on their investment. These statements in the documents filed with the SEC raise some questions about their assumptions:

- "No trading market exists for the units and it is possible that no trading market will exist at any future time."
- "There can be no assurance as to the amount of cash which will be available for distribution and, consequently, no assurance that distributions will in fact be made."
- "Since unitholders will be required to include their shares of partnership income for tax purposes without regard to whether there is a distribution of that income, the unitholders may become liable for federal and state income taxes on that income even though they have received no distribution from the partnership with which to pay such taxes."

We also urge you to consider statements that suggest that Consolidated Family Farms will farm some of the land itself or have it done through custom farming agreements and that it will make bulk purchases of insurance and other inputs. It apparently has not provided a procedure for a family to buy back its own farm and there appears to be no real assurance that farm families that participate will have any right to stay on their farm. These possibilities threaten to reduce the number of families in the community and have an adverse impact on the small businesses there.

We also want to raise some serious public policy issues regarding the impact of this plan on our American system of family agriculture. We believe, for example, that plans of this kind will speed up the trend toward complete absentee ownership of this nation's farmland. We don't believe it is fair to allow tax-avoidance partnerships to use their unfair economic edge to move in on debt-ridden farm families and take over their land. We don't feel the government can justify subsidizing these wealthy investors with tax shelter benefits while refusing to provide debt restructuring, lower interest rates, or other debt relief to farm families in trouble. We are not convinced that groups of well-heeled businessmen operating through tenants or custom operators, and having no personal interest or involvement except trying to dodge taxes, can come close to managing farms as efficiently as our present system of owner-operators. We also believe this plan may make it possible for nonfarm corporations to buy up units and become directly involved in large-scale farming.

It appears to us that this is nothing more than a complicated scheme to shelter income of rich people from taxes, to take advantage of down-and-out farm families unable to sell their farms in a depressed market, to make it easier for nonfarm investors to get around the restrictions of state corporate farm laws in buying up land, and to allow these groups to cash in later on appreciation in the value of the farmland through the capital gains tax provision. None of these results appear to provide any benefits to either agriculture or the general public.

We also want to remind the subcommittee that this is not the first time that a large-scale land takeover operation has been challenged at the federal level. The tax avoidance and absentee ownership issues involved here are quite similar to those Congress examined during the Ag Land Fund I hearings in 1977. That proposal by the Continental Illinois Bank of Chicago would have used tax-exempt pension and profit-sharing funds to buy up farms in the Midwest. That scheme, which threatened America's family farm system and small rural businesses, was abandoned after a storm of protest.

We are not suggesting to you that Consolidated Family Farms is violating any federal laws. The plan has been found illegal under Iowa's corporate farm statute, however, and it is reported to have problems in some other farm states.

It seems to us that Congress should assume some responsibility for what is happening here. It has done little in recent years to curb tax-loss farming and the gradual expansion of corporate involvement in agriculture or to stop the steady loss of fulltime family-operated farms and ranches. The federal government has created the political climate and the economic conditions that encourage ventures like Consolidated Family Farms and that, in our opinion, is the heart of the problem.

We realize this is not a legislative subcommittee and that there are no bills or resolutions before you on this subject today. Our specific request is that you use the resources of this committee, and of agencies like the IRS and the General Accounting Office, to fully investigate the number and type of plans of this kind proposed or already in operation, their likely impact on family agriculture and small rural businesses, the extent of their drain on the Treasury, and the kinds of legislative action that would be effective in taking the unfairness out of the rules applying to agriculture.

Would you ask the IRS, for example, to disclose the number of limited partnerships with multiple ownership of farm and ranch land that have filed returns in each of the last five years? Knowing the identity of these operations is not that important. We feel it is important, however, that the committees of Congress know how many of these there are and that they know more about their likely impact on both absentee ownership and the rural economy.

In closing, let me express our concern about the economic plight of our friends on Main Street. These small business people are our partners and we do not want to see their position weakened further by bulk purchasing and other practices usually carried out by large absentee-owned farming operations. We have lost entirely too many fulltime owner-operators from agriculture and too many small business entrepreneurs from our small towns and cities. The economic stability of these businesses is highly dependent on how well we do on the land. Anything that undermines our position in agriculture weakens their ability to survive.

We thank you, Mr. Chairman, for this opportunity to discuss our concerns. We urge you and your colleagues to give these issues your continuing attention. We hope you can generate enough support in Congress to close these farm-related loopholes and help reverse the current economic downtrend in our rural communities.

Senator **Pressler**. Thank you very much, Mr. Woodland. You were one of the first to call for a hearing on this issue, and I want to thank you for that, and for your statement.

Next I call on Mr. Paul Sacia, National Farmers Union.

STATEMENT OF PAUL R. SACIA, ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES, NATIONAL FARMERS UNION

Mr. **Sacia**. Thank you, Mr. Chairman. The National Farmers Union appreciates the speed with which this hearing was arranged in response to widely held concerns over a recently revealed plan——

Senator **Pressler**. Pull that microphone right up to you so we can hear you.

Mr. **Sacia** [continuing]. Over a recently revealed plan by Consolidated Family Farms, a Chicago-based limited partnership, to offer over-the-counter shares in farmland it acquires to the public. Today you are witnessing farm and religious organizations calling for appropriate actions to prevent the abuse of family farmers as seen in the form of public offering of shares in American farmland ownership.

Cy Carpenter, national president of this organization, put it well when he recently said, and I quote:

> We have come full circle with this offering. The Securities and Exchange Commission was formed during the Depression of the 1930's to help prevent abuses in stock trading. It is ironic that 50 years later the SEC is being asked to approve a business situation which seeks to take advantage of the continuing farm depression. For speculative investors to seize the opportunity to squeeze profits at the expense of family farmers and seek to make tenants or sharecroppers of them violates the philosophical underpinnings that caused the SEC to be created.

There are, of course, immediate questions that need to be asked about the Consolidated Family Farm proposal:

First, is a valuable service being performed for farmers by bringing new capital into agriculture?

It is the belief of the Farmers Union that this is a ridiculous contention. Capital is short in agriculture from time to time principally because of the risk in farming. Greater corporate involvement in agriculture will in fact increase risks because of their predictable opposition to Federal farm programs, instead opting for the kind of boom-and-bust system that we have watched seriously impair U.S. agriculture over the last several years.

The second question, "Could the proposed land acquisitions affect land values?"

We believe that land values could well be driven downward in the concerned regions because of two converging factors: First, there is little competition for farmland during this period, with young people, especially, reluctant to enter agriculture while it is in a depressed state. At the same time, Consolidated Family Farms has made it clear that they will be purchasing land at the lowest possible level. James Rudnick, a general partner in the venture, claimed in an interview with WGN radio in Chicago that their goal was to carry approximately a 30-percent debt load on their portfolio of farming operations. A 30-percent debt ratio is an unrealistically low level of debt to expect of farmers willing to give up ownership due to financial distress. The strong pressures to purchase property at rock-bottom prices in what can be considered a "vacuum market" could well cause a rippling effect, driving land values down in the immediate regions surrounding the targeted properties.

The third question to be asked, Will farm-service businesses be adversely affected?

The answer is a definite yes. In the Consolidated Family Farms preliminary prospectus, one can find on page 8 a list of—and I quote—"Possible Advantages to Owners." One advantage mentioned was—again, quote—"purchasing and marketing economies realized through the partnerships' larger volume and professionally managed purchasing and marketing programs."

Mr. Chairman, local merchants and, it seems, cooperatives especially, would suffer as a result of being circumvented as larger volume farm service arrangements are made by a business entity totally removed from the local community. That same entity will have no stake in civic organizations, churches, and other institutions, a necessary factor if vibrancy within the community is to be maintained.

The fourth question, "Does the arrangement offered by CFF represent a fair deal to the individual farmer?"

I think, looking behind the "structure of agriculture" argument, we believe the individual farmer will not fare well under this proposal. A farmer selling his ground and buildings to Consolidated Family Farms will not receive cash for his sale, but rather will receive securities issued by CFF. The farmer paid in securities or depositary units, as they are callėd by CFF, will not even receive 90 percent of fair market value minus the debt he owes on the land.

The preliminary prospectus offered by CFF doesn't appear to provide for any written agreement stipulating the duration of rental arrangements with the farmer. A gentleman's agreement does not secure that farmer's future several years down the road.

Of important note, the document does not provide any stipulations for buy-back of his farm as an option, a concern recently voiced in the Des Moines Register. Land rental rates are to be 7.5 percent of land value. In parts of Iowa, for instance, that could cost the tenant as much as $150 per acre.

A fifth question, Are there any problems with the Consolidated Family Farms proposal not being in accord with State laws?

The attorneys general of Iowa and Kansas have already determined that the proposed activities would be illegal. Nebraska, through their recently enacted ban on corporate farming, has deterred CFF from operating in their State. To date, those are the States having made pronouncements on the CFF issue.

And last, Is the CFF venture substantial enough in scope to warrant our concern?

We are talking about a venture which involves 14 States. 300,000 acres of farmland had been the original amount of property interest to be involved. CFF recently expressed an interest in acquiring greater land holdings.

This is not a modest proposal, especially when considering that if such a scheme is successful, it will certainly be copied by other investment interests. That there will be proliferation seems certain.

What is frightening, Mr. Chairman, is that unlike corporate investment schemes such as Continental Illinois National Bank's ag land trust fund or Northern Trust Co.'s similar scheme of 1980, this venture arises in a declining farmland market with few ready buyers and, therefore, has a very good chance of success.

The National Farmers Union simply wishes to convey to this subcommittee that farmers do not want to be spared the burden of land ownership. What they need is a price for their commodities. Then land ownership can be the privilege and joy that Thomas Jefferson had in mind when touting the agrarian way of life.

Ivan Wyatt, president of the Kansas Farmers Union, put the CFF proposal in its proper perspective last week when charging, and I quote:

> This sounds little better than a reinstatement of the corrupt tenant-farmer relationship that flourished in America in the late 1880's. Except this time, it isn't a single individual as landlord, it's a faceless corporation that is seeking to control farmland in several parts of the country.

Mr. Chairman, it is appropriate that this issue is being addressed before a small-business subcommittee because in many ways the family farm is the prototypical small business. It embodies those qualities that drive our economic system: Efficiency, adaptability, and competitiveness. The Nation loses portions of these highly valued elements each time another well-managed farm must drop out of business.

The Farmers Union is hopeful that this subcommittee can expeditiously offer legislation needed to protect existing family farmers from financial abuse such as that offered by the CFF proposal. We would consider such efforts a most positive step toward providing a healthy business climate for agriculture at a time when it is most needed.

Thank you very much.

[The prepared statement of Mr. Sacia follows:]

NATIONAL
FARMERS
UNION

STATEMENT OF

PAUL R. SACIA
ASSISTANT DIRECTOR OF LEGISLATIVE SERVICES
NATIONAL FARMERS UNION

BEFORE THE

SENATE SMALL BUSINESS SUBCOMMITTEE ON
FAMILY FARM

CONCERNING

CONSOLIDATED FAMILY FARMS'
SPECULATIVE VENTURES IN U.S. FARMLAND

August 1, 1984
Washington, D. C.

Mr. Chairman and Members of the Subcommittee:

The National Farmers Union appreciates the speed with which this hearing was arranged in response to widely-held concerns over a recently-revealed plan by Consolidated Family Farms, a Chicago-based limited partnership, to offer over-the-counter shares in farmland it acquires to the public. Today, you are witnessing farm and religious organizations calling for appropriate actions to prevent the abuse of family farmers as seen in the form of public offering of shares in American farmland ownership.

Cy Carpenter, national president of this organization, put it well when he recently said, "We have come full circle with this offering. The Securities & Exchange Commission was formed during the Depression of the 1930s to help prevent abuses in stock trading. It is ironic that fifty years later the SEC is being asked to approve a business situation which seeks to take advantage of the continuing farm depression. For speculative investors to seize the opportunity to squeeze profits at the expense of family farmers and seek to make tenants or sharecroppers of them violates the philosophical underpinnings that caused the SEC to be created."

There are, of course, immediate questions that need to be asked about the Consolidated Family Farm proposal:

1) Is a valuable service being performed for farmers by bringing new capital into agriculture?

It is the belief of Farmers Union that that is a ridiculous contention. Capital is short in agriculture from time to time principally because of the risk in farming. Greater corporate involvement in agriculture will, in fact, increase risks because of their predictable opposition to federal farm programs, instead opting for the kind of "boom and bust" system that we have watched seriously impair U.S. agriculture over the last several years.

2) Could the proposed land acquisitions affect land values?

We believe that land values could well be driven downward in the concerned regions because of two converging factors. First, there is little competition for farmland during this period, with young people especially reluctant to enter agriculture while it is in a depressed state. At the same time, Consolidated Family Farms has made it clear that they will be purchasing land at the lowest possible level. James Rudnick, a general partner in the venture, claimed in an interview with WGN radio in Chicago that their goal was to carry approximately a 30% debt load on their portfolio of farming operations. A 30% debt ratio is an unrealistically low level of debt to expect of farmers willing to give up ownership due to financial distress. The strong pressures to purchase property at rock-bottom prices in what can be considered a "vacuum market" could well cause a rippling effect, driving land values down in the immediate regions surrounding the targeted properties.

3) Will farm-service businesses be adversely affected?

The answer is, a definite yes. In the Consolidated Family Farms Preliminary Prospectus, one can find on Page 8 a list of "Possible Advantages To Owners." One advantage mentioned was "purchasing and marketing economies realized through the Partnerships' larger volume and professionally managed purchasing and marketing programs."

Local merchants, and, it seems, cooperatives especially, would suffer as a result of being circumvented as larger volume farm-service arrangements are made by a business entity totally removed from the local community. That same entity will have no stake in civic organizations, churches and other institutions, a necessary factor if vibrancy within the community is to be maintained.

4) Does the arrangement offered by CFF represent a fair deal to the individual farmer?

Looking beyond "structure of agriculture" agreements, we believe the individual farmer will not fare well under this proposal. A farmer selling his ground and buildings to Consolidated Family Farms will not receive cash for his sale, but rather will receive securities issued by CFF. The farmer paid in securities, or depository units, as they are called by the CFF, will not even receive 90 percent of fair market value minus the debt he owes on the land.

The Preliminary Prospectus offered by CFF doesn't appear to provide for any written agreements stipulating the duration of a rental arrangement with the farmer. A gentlemen's agreement does not secure that farmer's future several years down the road.

Of important note, the document does not provide any stipulations for "buy-back" of his farm as an option, a concern recently voiced in the Des Moines Register.

The land rental rates are to be 7.5 percent of land value. In parts of Iowa, for instance, that could cost the tenant as much as $150 per acre.

5) Are there any problems with the Consolidated Family Farm proposal not being in accord with state laws?

The Attorneys General of Iowa and Kansas have already determined that the proposed activities would be illegal. Nebraska, through their recently-enacted ban on corporate farming, has deterred CFF from operating in their state. To date, those are the states having made pronouncements on the CFF issue.

6) Is the CFF venture substantial enough in scope to warrant our concern?

We are talking about a venture which involves 14 states. 300,000 acres of farmland had been the original amount of property interest involved. The CFF recently expressed an interest in acquiring greater land holdings.

This is not a modest proposal, especially when considering that if such a scheme is successful, it will certainly be copied by other investment interests. That there will be proliferation seems certain.

What is frightening is that unlike corporate investment schemes such as Continental Illinois National Bank's "Ag-Land Trust Fund" or

Northern Trust Company's similar scheme of 1980, this venture arises in a declining farm land market with few ready buyers and, therefore, has a very good chance of success.

The National Farmers Union simply wishes to convey to this subcommittee that farmers do not want to be spared the burden of land ownership. What they need is a price for their commodities; then land ownership can be the privilege and joy that Thomas Jefferson had in mind when touting the agrarian way of life. Ivan Wyatt, president of the Kansas Farmers Union, put the CFF proposal in its perspective last week when charging, "This sounds little better than a reinstatement of the corrupt tenant-farmer relationship that flourished in America in the late 1880's. Except this time, it isn't a single individual as landlord, it's a faceless corporation that is seeking to control farm land in several parts of the country."

It is appropriate that this issue is being addressed before a Small Business Subcommittee because, in many ways, the family farm is the prototypical small business. It embodies those qualities that drive our economic system: efficiency, adaptability and competitiveness. The nation loses portions of these highly-valued elements each time another well-managed farm must drop out of business.

Before the onset of the current farm depression, the USDA in 1980 provided us with a discomforting look into the future with a report entitled "U.S. Farm Numbers, Sizes and Related Structural Dimensions: Projections to the Year 2000." That report projected that, barring unforeseen circumstances, by the year 2000:

* The number of farming units will drop to 1.8 million.

* Agricultural production and farmland ownership will be dominated by fewer and fewer farms.

* Half of the farmland will be farmed by the largest 50,000 farms and they will account for two-thirds of the output.

* Young, potential farmers will have increasing difficulty getting started in farming. The number of farmers under age 35 will decline by 40 percent.

* Corporations and partnerships will account for half the farm output.

* Two-thirds of the wealth in the farm sector will be in the hands of those associated with farms grossing more than $100,000 a year.

- Capital requirements will rise to $2 million per farm for units with sales of $100,000 or more -- nearly double what was required in 1978.

The projections could not, of course, have taken into account the current farm crisis.

The Farmers Union is hopeful that this Subcommittee can expeditiously offer legislation needed to protect existing family farmers from financial abuse such as that offered by the CFF proposal. We would consider such efforts a most positive step toward providing a healthy business climate for agriculture at a time when it is most needed.

Senator **Pressler**. Thank you very much, Paul, for your fine statement.

Next I call on Jim Miller, of the National Grange.

STATEMENT OF JAMES C. MILLER, ASSISTANT LEGISLATIVE DIRECTOR, THE NATIONAL GRANGE

Mr. **Miller**. Thank you, Senator. My written remarks are very brief, and my spoken remarks will be even briefer.

Senator **Pressler**. Excuse me. If we can keep the noise down a little bit in the room—I can't see back there because of the lights, but I hear some noises coming forward, and I can't quite hear.

If you will, bring the microphone as close as you can to yourself. We all want to hear you.

Mr. **Miller**. That noise may be the groan of rural America. [Laughter.]

Senator, I think it can be summed up very briefly by saying the possibility exists that if investment schemes such as this are to proliferate, it will have a very short-run and long-run adverse impacts on American agriculture. I don't think that there is any question but what this concept is antithetical to the whole concept of family farming; that is, farmers who own the land that they till.

It looks as though from a short-term perspective, this may have some attraction for some farmers because of their desperate circumstance right now, but in our estimation, this could well be analogous to trading a headache for an upset stomach. If your financial burdens right now are such that it's causing severe strain on the family and on the rural economy, how will this be remedied by trading the title to your farmland, the basis for any future profits at all, for paper issued by a limited partnership?

It appears to the National Grange that this represents yet another scheme to transfer the fundamental wealth of rural America from rural America to Wall Street. It is, I think, in the very long term certainly no substitute for an effective and a profitable economic climate for rural America. And without a doubt, it is no substitute for a true, real family farm policy that could emanate from Washington, DC., and remedy in the long term the ills of agriculture that we see right now.

I recognize that the possibility exists that this could represent an inroad for some beginning farmers. Yet what beginning farmer would invest the kind of money and machinery and other capital to farm land to which he or she cannot make any long-term commitment to?

The lack of any long-term written lease or purchase option agreement seems to us an absolute and very significant shortcoming to this proposal. In summary I merely say that the National Grange does not think this is a good idea. It appears to us that the insidious nature of this, its long-term effect on the health and viability of rural America, has to be viewed now and looked at and scrutinized now and remedies taken immediately.

Thank you, Senator.

[The prepared statement of Mr. Miller follows:]

national grange
1616 H STREET, N.W. WASHINGTON, D.C. 20006 (202) 628-3507

Statement of James C. Miller, Assistant Legislative Director
The National Grange

Before the Small Business: Family Farm Subcommittee of the
U.S. Senate Small Business Committee

August 1, 1984

Re: Exchange Offer of Consolidated Family Farms Chicago, IL.
and similar proposals

Mr. Chairman and Subcommittee Members:

I am James C. Miller, Assistant Legislative Director of the National Grange, a general farm and rural organization of 400,000 members in 41 states. The Grange appreciates this opportunity to appear before this Subcommittee on this important topic. Senator Pressler, you are to be commended for your initiative in calling this hearing. Your dedication to family agriculture is widely recognized and appreciated in Rural America.

Let me first declare that I am neither a tax expert nor an expert in securities law. My familiarity with the intricacies of the exchange offer by Consolidated Family Farms (CFF) is sketchy, as best. But I know how desperate many farmers and ranchers are in these times, and it appears to me that this proposal is not in the best interest of family farming or the future of farming in America. It appears to be antithetical to the fundamental premise of family agriculture---- farm operators who own the land they till. If this exchange occurs, hundreds, maybe a thousand or more family farmers will be trading a headache for an upset stomach.

Without question, American farmers are facing serious problems that do not appear to be ensing. Dissolutions, bankruptcies, voluntary liquidations and forclosures have become realities to far too many efficient producers who are the victims of high interest rates, declining farmland values, and poor prices for their crops. The future continues to look grim.

The National Grange opposes investment schemes in farming similar to this CFF exchange offer. We oppose them because they are not and will never be a substitute, even on a temporary basis, for profitable prices in an economic climate condusive to family farming. The ills of agriculture cannot be solved by exchanging a farmers land for a limited partnership's paper. The outcome of this exchange will be corporate ownership of farmland, and consolidated family farms is merely a description of the process by which this corporate takeover will occur.

I've read CFF's exchange offer prospectus, and I don't understand much of it. I doubt farmers will, either. It could be that the only damage that this offering (and others like it) will inflict on farmers would be to make them a little poorer if they take the prospectus to an attorney for advice. That's the upside. If they take it only to their banker, the advice they get will be in the bankers best interest, and in most cases, I suspect, that advice will be in the farmers' best interests as well. But the outcome could be much worse, and it's fairly obvious that it won't be the farmers who get rich or even escape their situation with the full value of their equity holdings. Their net worth is guaranteed to drop 10%, and depending on the outcome of the recapitalization offer, it could drop to zero.

This exchange offering (and others like it) is not a good idea for family farmers. It represents another attempt to transfer wealth from family agriculture to Wall Street. Agriculture will survive these hard times, but unless action is taken to stop this transfer of wealth, it will not be family agriculture that survives. The most insidious aspect of these investment schemes is that they are perpetrated in the name of, and for the good of, the family farmer. Nothing could be further from the truth.

I appreciate this opportunity to appear here today, and I would be pleased to respond to any questions by the Committee.

Senator PRESSLER. Thank you, all three from national farm organizations.

Let me address a question to any of you. Apparently many farmers have expressed a great interest in this plan, at least that is what I have read in the media. What do you attribute this interest to? What alternatives to joining a group such as Consolidated Farmers do farmers in financial trouble have?

Mr. WOODLAND. Mr. Chairman, I would assume that the reasons for their interest would be curiosity. If someone comes and offers a solution, as wild as it may appear, you want to listen and see and evaluate. And those who participate are probably desperate; they have no alternative available to them. And so the choice isn't really theirs to make. It's the lesser of two evils: To participate as a sharecropper, as a tenant, or take that family and relocate. And no farmer wants to yield ownership to his land.

Senator PRESSLER. Go ahead.

Mr. SACIA. I really would echo the comments of Mr. Woodland. It's a short-term sort of thing. In many ways, it's an act of desperation. As a farm organization, we haven't had too many farmers contacting us with interest in this thing. Mostly, it's been an outcry.

Mr. MILLER. I would reaffirm that. What we have heard from our people has been alarm.

Senator PRESSLER. Using the knowledge that you have about the Consolidated Family Farms plan, do you feel that an individual farmer's rights would be protected under the limited partnership?

Mr. MILLER. Senator, I wouldn't feel comfortable in responding to that. I am not an expert in that regard. I don't see how comfortable anybody could feel with such a loose-knit agreement to remain on the land.

Mr. WOODLAND. I think that maybe that will be a good question to ask the Consolidated Family Farms group. And I would like to hear their response to that question.

Senator PRESSLER. I shall.

Mr. SACIA. I have really no further comment other than to say that there is nothing that's keeping the corporation from doing whatever they want to the year after they make an arrangement with that particular farmer.

Senator **Pressler**. Now, is the 7.5-percent cash rent figure a reasonable one? How does that 7.5 percent compare with the current prices for cash rent? Do any of you have a feeling on that?

Mr. **Woodland**. Most of your renting is done on a crop basis, so much of the crop, versus a cash-type rent. Very little cash renting goes on. And so it's hard to compute because it'd be based on the value of the crop at time of sale.

Mr. **Miller**. Senator, I might add that the reason that there isn't that much cash renting going on is because it puts the farmer in a total risk position. And certainly, when you're talking about 7.5 percent, that may be fair or that may be on the high side, but the fact of the matter is if you have somebody who is in financial difficulty right now, they can't afford to take the 100 percent of the risk in the upcoming year.

Senator **Pressler**. Now, many States have passed laws banning corporate ownership of farmland. Would you support similar legislation at the Federal level, or is this an issue that's better left to the States?

Mr. **Woodland**. Well, I think any time the basic industry of America is threatened or challenged, I think it has to be handled at a higher level than the State. And agriculture without a doubt is the very—at the very heart of America. And I would think that it ought to be handled at the Federal level because of the impact on the country and the world.

Mr. **Sacia**. We have the same view on it.

Mr. **Miller**. I would take issue with that, Senator. It seems to me that one of the fundamental problems to CFF was the fact that there were some States with corporate farm laws and some without. It didn't seem to matter to CFF when they initiated their proposal that Iowa had such a law. Yet at the same time, it was at CFF's initiative, as I understand it—and I hope that the witnesses later on will address this issue—that they decided not to enter Nebraska. And it would seem to me that that decision would be predicated on the basis that Nebraska's law was somehow different from Iowa's. And I think that's fundamental.

I think it ought to be a State's responsibility to tailor a corporate farm law to meet their needs, and I think Nebraska did such a thing. I think Iowa's attorney general recognized the intent behind the law and simply stated in his opinion it would not be an appropriate response.

Senator **Pressler**. What impact, say, if several farmers joined a group like Consolidated Family Farms, what impact would that have on rural communities and small businesses, farm supply businesses? Do you have any feel for that or any ideas?

Mr. **Woodland**. I don't think there's any question that you have massive purchases of supplies and equipment that circumvents the local suppliers in a community. You would see your independent businessmen circumvented and the community would begin to dry up, if you will, and in the process of this, the services to the farm families who may even then be operating as a tenant would be severely hampered in the way of public services within that community.

Senator **Pressler**. In the past, several proposals have been circulated for corporations or pension plans to purchase farmland. How does Consolidated Family Farms differ from previous proposals? That might be something you will want to answer for the record, because you would need to know what the pension plan was and have heard the Consolidated Family Farms testimony. I will submit that for the record to you, if you would prefer, unless you have an example in mind.

Mr. **Woodland**. Well, the ag fund—land fund No. I, in 1977, was a similar type venture wherein they were using the tax loophole for investment purposes into agriculture. This is similar. Very little difference in it.

Perhaps the group can answer that in more detail. They've no doubt studied both of them very carefully.

Mr. **Sacia**. Other than technical differences, the biggest concern of ours is that the farmers find themselves in a totally different situation than these other two ventures when they first came about. And farmers are just much more vulnerable and more apt to be receptive to this kind of approach because in the short term they'll be able to stay in agriculture for a while.

Senator **Pressler**. That concludes my questions.

[Subsequent information was received and follows:]

Information Supplied by Mr. Miller

Senator, as I understand the Farmland Trust proposed by Continental Illinois several years back, farmland purchases would have been made through a pension fund investment process. Profits from the farm production would have been channeled into the pension fund and would, therefore, have not been taxable. I'm not sure that I see any significant similarities with these two proposals.

Senator **Pressler**. I want to call on my colleague Senator Baucus for any statement or questions he may have.

STATMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM THE STATE OF MONTANA

Senator **Baucus**. Thank you, Mr. Chairman. I want to commend you for holding these hearings. There is no question we've got a problem, and the problem is many-faceted. Farmers are in dismal shape in many parts of the country. A lot of farmers are in a vulnerable position. They're saddled with debt. They want to hold onto their farms. They want to keep their places. Now comes along an outfit and nobody knows who they really are. But they look like they may be the only way out.

The trouble is, I don't know that it really passes what I call the "smell test." There's something not quite right about all this. Maybe the answers to our many questions will clear it all up. But I must tell you that I am very concerned because of the 300,000 acres that CFF is considering to acquire, 200,000 acres are in my State of Montana.

Part of the problem is that CFF has come in with big, heavy publicity campaigns prior to any registration statement being approved by the State securities Commissioner. This doesn't look make it like the kind of operation that invites an awful lot of confidence.

Now, it may be that when our many questions are answered, that the answers will clear up a lot of this. I hope they do. We don't want any outfit not to be entirely aboveboard.

I hope that the hearings will bring out a lot of facts so we can have a better sense of what is really going on, and I want to commend you again for holding these hearings.

Senator **Pressler**. Thank you, Senator Baucus. I want to commend you for your strong support for the family farmer and rancher.

Let me call now on Mr. Jeff Southard, deputy attorney general, State of Kansas.

Jeff, you may proceed. We like to keep our statements limited to 5 to 8 minutes, and we'll put them in the record. And we'll have questions, if that's OK.

Mr. **Southard**. Fine.

STATEMENT OF HON. JEFFREY S. SOUTHARD, DEPUTY ATTORNEY GENERAL, STATE OF KANSAS

Mr. **Southard**. Thank you, Senator, for this opportunity to be here today.

We in Kansas first became aware of Consolidated Family Farms through a series of news releases that——

Senator **Pressler**. Pull that microphone right up close so the people in the back can hear.

Mr. **Southard**. Through a series of news releases——

Senator **Pressler**. If the audience can do as little conversing among themselves in here and more outside, we'll all be able to hear better. I get some hands that people can't hear.

Mr. **Southard**. OK. Through a series of news releases which appeared in Kansas newspapers during the week of July 9, 9 through, I think, 13 or 14, one of which is attached to my written statement.

These releases set forth the framework of the transactions which CFF proposed to make. In the one which is attached, which appeared in the Wichita Eagle on July 10, the main thrust of the comments by Mr. Rudnick, James Rudniok, concerned the way in which farmers could be relieved from the burden of debt. And that was the main thrust of the releases.

He also appeared on some radio talk shows during the following days. These are the kinds of stations which are beamed out to the agricultural section of the population. In one of these interviews, aired on July 17, he stated that CFF had been in contact with approximately 23 Kansas farmers who were interested in participating in the program. During the interview, he gave out the address and telephone number of Consolidated Family Farms, stated that operators were standing by to accept inquiries, and generally solicited farmers' interest in participating in the program.

At this time, CFF had made no attempt to comply with any statutes in Kansas concerning registration of securities or solicitation of securities. Indeed, the only contact which CFF had had with the State was the sending of a prospectus to our office—and this was at my request.

In looking through the prospectus, our initial concern was determining whether or not the Kansas laws concerning corporate ownership of farmland had been violated. We had had several other situations come up in the previous 2 or 3 months in which corporations were seeking to acquire farmland either through leaseback programs or situations where they would acquire the land and then enter into partnership with Kansas farmers.

Our office had ruled that both of these schemes violated the Kansas law.

Incidentally, mention was made of what the Iowa attorney general has already determined. Our law was derived from the Iowa law, but is different enough so that the basis which Iowa used to find the scheme in violation of that law were not available to us in that our law does not speak to limited partnerships, but only corporations. So that there is a situation where one law, one State's law, allows a practice where another one does not.

In looking through the prospectus, we discovered that the structure is considerably more complicated than what had been given in the news releases. If you have my written statement there, we have tried to set out a chart showing how the various entities here interrelate.

Senator PRESSLER. Let's see now. What page is that on?

Mr. SOUTHARD. It's attachment B, the very back——

Senator PRESSLER. At the back. Oh, I see it.

Mr. SOUTHARD [continuing]. Page of the written statement.

Senator PRESSLER. Oh, yes. All right.

Mr. SOUTHARD. Initially, let me say that there was one line that got misplaced. If you look there on the extreme left side, there's a line that comes down from the very top, along the left side to the bottom, where it goes over to operating companies, that actually instead of coming out of the individuals at the very top, should come out of FMC Management Co. and then go over and then down and then back over to the operating companies.

FMC Management Co. is that general partner with that 1 percent interest. And that was a mistake when we put the thing together.

As you can see from this, Consolidated Family Farms is but one level of a very complicated series of interlocking limited partnerships. The operating companies which will actually be operating the farms are at the very bottom. The Consolidated Family Farms will serve as the limited partner for these operating companies, with the general partner being FMC Management Co. which is several layers up in the totem pole.

The individual farmers, in turn, are limited partners in Consolidated Family Farms, with CFF Realtors over there on the right side being a limited partner with a 3-percent interest. and then Farm Management Co. of America being a general partner, or the general partner, with a 7-percent interest.

And the way these 90 percent, 3 percent, and 7-percent interests are derived, according to the prospectus, starts when the farms are turned over to the partnership. They are first appraised and a value set, and then——

Senator PRESSLER. Now, who appraises them?

Mr. SOUTHARD. There is going to be a neutral appraiser. I believe they're going to get the Doane Co., which is a——

Senator PRESSLER. OK.

Mr. SOUTHARD [continuing]. Well-known independent appraiser, to do the appraising. They will set a dollar amount, and then what the prospectus refers to as depositary units will be issued. If a farm, for example, has a value of, oh, half a million dollars, 25,000 depositary units will be issued, so that every $20 worth of value—for every $20 of value there will be one depositary unit. The farmer receives then a maximum of 90 percent of these units back, 7 percent go to Farm Management Co. of America, and CFF Realtors receives 3 percent.

So there is an immediate dilution of the farmer's interest. He gets, in effect, 90 percent of what he put in.

Now, the 90 percent, as I say, is a maximum. One of the main problems which we had, and still have, with this kind of proposal concerns what's going to be done with the debt. Almost all farms that are going to be interested in this have a heavy debt load. Since there is no capital, that we can tell, which is going to be pumped into this operation, the only way that a bank or any kind of Federal institution is going to be able to be paid off is through the acceptance of these depositary units.

The Kansas Bank commissioner, speaking for Kansas alone, has already determined that Kansas banks, due to Kansas law, would not be able to accept these depositary units in return for releasing the security they have on the land. So that would tend to negate at least one of the key benefits of this plan; that is to say, the release of debt for the farmer.

This, again, goes only to State banks in Kansas, but when you consider that Kansas has over 350 State banks, most of which are small and deal in agricultural loans, this is certainly going to be a very big stumbling block for this kind of proposal.

Again, since there is no capital being injected, this appears to be the only way in which debt can be removed and then title passed to the partnership.

To finish the discussion of the organizational chart, FMC Management Co., serves as the general partner of Farm Management Co. of America, and it, in turn, is controlled by the individuals at the very top of the ladder, Mr. Rudnick and his associates.

Off to the side of the chart, there are two entities which are named the Professionals and CFF Management Corp. These are entities which are corporations. Individuals, up at the top, own stock in these companies. It's not disclosed who owns what or how much. And then these two entities have, or will have, what are referred to as "management agreements" with, down again to the bottom, Farm Management Co. of America, and they will provide various services, all for a percentage of the revenue or percentage of the gross rents or receipts.

So you have a series of transactions, all of which generate some percentage of revenues, all of which stem from the initial contribution by the farmer of the assets. He is, as far as we can tell, about the only person putting anything into this.

Incidentally, in going through the prospectus again just recently, we discovered that it is up to the farmer to pay the appraisal costs for putting his land in the program, and should his land be accepted, the farmer is also stuck with paying the closing costs for these transactions. So there actually is very little that the farmer doesn't end up paying.

As I mentioned, we determined that due to the structure of this plan using only limited partnerships, Kansas law involving corporate farm ownership was not violated. However, given that certificates of deposit were going to be issued, it appears that there were securities involved. We therefore directed the matter to the Kansas securities commissioner, John Worth, for his review. And within 4 days after receiving the matter, he determined that they were in fact issuing—or soliciting securities without having taken any of the necessary steps and, therefore, issued a cease-and-desist order in Kansas which is still in effect. He requested the names of the 23 farmers who had supposedly shown interest. This request, at last contact, was still outstanding.

I mentioned the problem of how the debt is going to be taken care of. There are some other problems that from a legal standpoint I might mention just briefly.

The farmers in the prospectus may or may not turn over their equipment to the partnership. If they don't, they would still have title to that. However, in many cases, the security for the equipment is the land, and if the farmer no longer has title in the land, it's difficult to see how those security interests are going to continue to exist.

It's our conclusion from having looked at this proposal, that this is an arrangement by which control of agricultural land is going to be obtained by outside investors who are called upon to invest actually very little capital. Farmers are required to turn over their real property and also pay all the closing costs, the appraisal costs, and so forth.

The plan is fuzzy at best as to how the existing debt will be removed, and fails to focus on the real problem of the men and women at the family-farm level; that is, how they can secure capital on a regular basis.

In the view of Attorney General Stephan, farmers in Kansas will be better served through programs which recognize that there is nothing wrong with their management techniques. It's the capital flow that they're having a problem with, and they don't need schemes like this which are based upon a series of management transactions which really contribute nothing to the underlying problem.

That will conclude my informal remarks. I have some written ones for the record.

[The prepared statement of Mr. Southard follows:]

Statement of Jeffrey S. Southard
Deputy Attorney General, State of Kansas

before

Senate Small Business Committee, Subcommittee on
Small Business: Family Farm

August 1, 1984

Mr. Chairman and Members of the Subcommittee:

Kansas Attorney General Robert T. Stephan very much appreciated the invitation by the Senate Small Business Committee's Sub-committee on Small Business: Family Farm to appear at today's hearing. However, a prior series of meetings in Colorado already required the Attorney General's presence. As the staff attorney who has handled our office's investigation into Consolidated Family Farms, I am appearing today in his place.

Our office first became aware of Consolidated Family Farms (CFF) through a series of news releases which appeared in Kansas newspapers during the week of July 9, 1984. The releases, one of which is attached to this statement as attachment A, set forth the framework of the transactions which CFF proposed to make. These news releases were followed by interviews on at least two Kansas radio stations which are aimed at the agricultural section of the population. In both, James S. Rudnick appeared as a representative of CFF to explain the program. In one of these interviews, aired on July 17, 1984, Mr. Rudnick stated that CFF had been in contact with approximately 23 Kansas farmers who were interested in participating in the program. In this interview, Mr. Rudnick gave out the address and telephone number of CFF, and stated that operators were standing by to accept inquiries from interested farmers. At this time, CFF had made no attempt to comply with any Kansas statutes concerning registration of securities or securities solicitations. Indeed, the only contact which CFF had had with Kansas authorities was the sending of a preliminary prospectus to our office at my request. This prospectus was received on July 16, 1984, and appeared to be identical with one which had been secured through a private citizen three days earlier.

In examining the preliminary prospectus, the initial concern of the Kansas Attorney General's Office was to determine whether actual or potential violations of the Kansas corporate farming statutes had occurred. Like many states, Kansas has enacted statutes which place limitations upon the ownership of agricultural land by corporations. The Kansas laws which are now in effect were revised in 1981, and are derived from statutes already in effect in the state of Iowa. Essentially, Kansas prohibits the ownership of agricultural land by any corporation, except under a number of limited exceptions, the most important of which deals with land acquired by a corporation as a result of foreclosure or other efforts to realize on a security interest. Even then, however, the corporation must divest itself of ownership within ten years.

In the preceeding weeks prior to the announcements by CFF, our office had had the occasion to examine two other proposals under which corporations would either enter into partnerships with Kansas farmers or would acquire Kansas land through purchase and then lease it back to the individual farmer. Both such schemes were declared to be in violation of the Kansas statutes as constituting direct violations. It was with this in mind that the prospectus from CFF was examined.

Once this was done, it was discovered that the structure contemplated by the promoters was considerably more complicated than had been disclosed thus far to the media. Public discussions had been general and had referred to limited partnerships formed between owners of agricultural land and Consolidated Family Farms. As disclosed by the prospectus (at page 9), a diagram is set forth which indicated that ownership was through a series of interlocking limited partnerships. Actual ownership of the land would be through an unnamed "operating company", which would be a limited partnership with FMC Management Company serving as the general partner and Consolidated Family Farms serving as the limited partner. FMC Management Company is in turn a general partnership which is composed of Mr. Rudnick and his associates, most of whom have backgrounds in real estate and investment, rather than farming. This partnership would have general operating control over the operating companies in return for contributing 1% in cash. CFF, which would serve as the limited partner, would in turn be composed of a general partner, Farm Management Company of America, and numerous limited partners. Most of these limited partners would be the farmers themselves, who would receive "Depository Units" equal to 90% of the appraised value of their real property. Realtors who handle the transfer receive units equal to 3% and constitute the other limited partners. Farm Management Company receives the remaining 7% interest as payment for the expenses of making the initial offering.

The trail goes on, however, in that Farm Management Company of America is itself a limited partnership composed of FFC Management Company, which serves as general partner and holds a 60% interest. This is the same FMC Management Company which is the general partner of each of the operating companies. (This 60% interest translates into a 4.2% interest of CFF, and is obtained by contributing 1% cash.) The limited partners of Farm Management Company of America are a series of investors, who are disclosed at pages 60 and 61 of the prospectus.

Additionally, there are a number of "affiliates" who are to provide various management, administrative and other services. Two of these, CFF Management Corporation and The Professionals, Inc., are owned by stockholders, some of whom are general partners in FMC Management Company. While these two affiliates do not actually own a percentage of any of the partnership interests, they are guaranteed a return, based on percentages of rents, receipts, gross revenue, and on funds available for investment. (For a graphic demonstration of these interlocking relationships, see a chart prepared by our office as attachment B.)

Given the above, it was our conclusion that CFF's scheme did not on its face violate the Kansas prohibition against corporate ownership of farm land, in that limited partnerships are not included in the definition of corporations. (Note: the Attorney General of Iowa has since determined that the CFF plan does violate the corporate farming law of that state.) However, at the recommendation of our office, the Office of the Kansas Securities Commissioner examined the prospectus with an eye to determining whether Kansas securities laws were applicable. After a number of discussions with this office, the securities commissioner determined that the limited partnership interests which would be involved in CFF's scheme constitute securities as being "transferrable shares" and "certificates of interest in a profit-sharing agreement." Further, the "evaluation requests" which CFF sought to disseminate to interested farmers constituted solicitation of offers to buy. No registration statement had been filed with the State of Kansas, nor any of the limited partnerships registered with the State, as required by the Kansas version of the Uniform Limited Partnerships Act. Additionally, the preliminary prospectus was found to be defective as follows: (1) even minimal information was not included concerning the financial status or projections of either CFF or the limited partnerships which owned portions of CFF; (2) the use of unregistered agents was contemplated; (3) the exchanges by which a farmer receives depository units for the contribution of his land constituted an unfair and inequitable dilution of investor interest; (4) and insufficient disclosure was made of certain material facts. For that reason, a cease and desist order was issued against CFF and the principals of FMC Management Company, effective July 20, 1984.

In addition to the disclosure problems which are briefly touched upon above, Attorney General Stephan has additional concerns about other aspects of the CFF program. One crucial problem lies in the way in which existing debt is proposed to be handled. As noted above, a farmer who donates his land to CFF receives in return depositary units equal to 90% of the appraised value of the land, with the remaining 10% held by the general partner, Farm Management Company of America, and the involved realtors. However, if, as is almost certain to be the case, the land is encumbered by debt, it will be necessary to either refinance or remove the debt before title to the land can be passed to the partnership. In that no real injection of capital is occurring by anyone except the farmer, the only way debt can be paid off is for the lender (a bank, Federal Land Bank Association or Farmers Home Administration) to accept depository units as payment for its loan. As such units have no intrinsic value and are worth only what buyers are willing to pay on the open market, it is unclear whether a farmer with any significant debt load could persuade his lenders to accept the units, and so obtain relief. Additionally, while it is disclosed at one point in the prospectus that the shares are to be traded on the open market (after a six month initial hiatus), it is not disclosed that many state laws, including that of Kansas, may not permit lending institutions to invest in such speculative certificates. Finally, while title to a farmer's machinery and equipment is not transferred, such items are usually secured by an interst in land, which would no longer be held in the farmer's name, thus throwing into question these security agreements.

In conclusion, behind the facade of the lengthy and detailed prospectus, CFF appears to be an arrangement by which control of agricultural land is obtained by outside investors, who are called upon to actually invest very little of their own capital. Farmers, on the other hand, are required to turn over their real property and assets, and effectively become 20th century sharecroppers, paying a cash rent to farm what was previously their own land. The plan is fuzzy as to how existing debt will be removed, and fails to focus on the ongoing credit needs of the men and women who are engaged in agriculture at the family farm level. While a number of individuals and entities would profit by the numerous transactions which this plan proposes, the farmers would appear to be receiving the least after contributing the most. In the view of Attorney General Stephan, farmers in Kansas, as well as elsewhere, will better be served through realistic and concrete programs which address the underlying problems of capital formation and acquisition which farmers face, rather than by elaborate management schemes which continue to place almost all of the burden upon the back of the farmer.

Thank you for this opportunity to appear and express our concerns.

Attachment "A"
Wichita Eagle!
July 10, 1984

New Firm Offers Stock For Farmland

WEB 7-10-84

By Dirck Steimel
Staff Writer

A new limited partnership is being formed to buy as much as 600,000 acres of farmland in Kansas and several other states, then lease it back to the financially strapped farmers, it was announced Monday.

The idea is to find quality growers who are struggling because of their debt load, said Jim Rudnick, a real estate investment banker. He will be the managing general partner of a new Chicago-based firm, Consolidated Family Farms.

"With the interest rates and the other problems of the farmers, we came up with this to relieve the burden of debt," Rudnick said. "Then he can stay in farming."

THE NEW firm announced that it had filed a preliminary registration statement and prospectus with the Securities and Exchange Commission and plans to be in full operation this year, after it has lined up its portfolio of farm properties.

Under the firm's plan, a grower would sell his farm — land and buildings — to the partnership in exchange for securities. There would be no money involved in the transaction.

The success of the partnership will depend upon how well the securities sell to the public, Rudnick said. Initially, shares are expected to sell for about $20 each. Then, Rudnick said, the securities' price movements likely would mirror the farm economy after they are released.

A similar venture, started by several prominent Wichita businessmen, had planned to buy urban properties, like shopping malls and office buildings. However the firm — called Rexmoor Properties — folded this year and never offered any securites or purchased any property.

UNDER THE farm venture, growers would be paid securities — called depositary units — worth only 90 percent of the farm's fair market value, minus the debt the grower owes on the land. In exchange, he said, the partnership would take on all of the farmer's debt and allow him to stay on the farm.

The debt might be paid off by offering the firm's securities to lenders or the firm simply could hold it, he said.

While the seller (farmer) would not get 100 percent of value in stock, Rudnick said, the farmer would be out of debt and have the securities, a liquid asset a time when the farmland market is slumping. "He becomes a partner, instead of a guy who just goes to the bank every week to ask for more time on his loan," Rudnick said. And the seller would be given the first option to operate the farm on a cash rent basis.

The farmer would then become a member of the partnership, owning a small piece several hundred farms across the Midwest and Missisipi Delta region, he said. The firm is hoping to spread its ownership in the Great Plains, Corn Belt and South to guard against regional droughts or other weather-related problems, Rudnick said.

IN ADDITION, he said, the farmer (seller) would be able to reap tax benefits from the transaction. The trading of the securities would defer tax payments until they were cashed in, and the grower would still be eligible to take depreciation of the farming equipment he still owns.

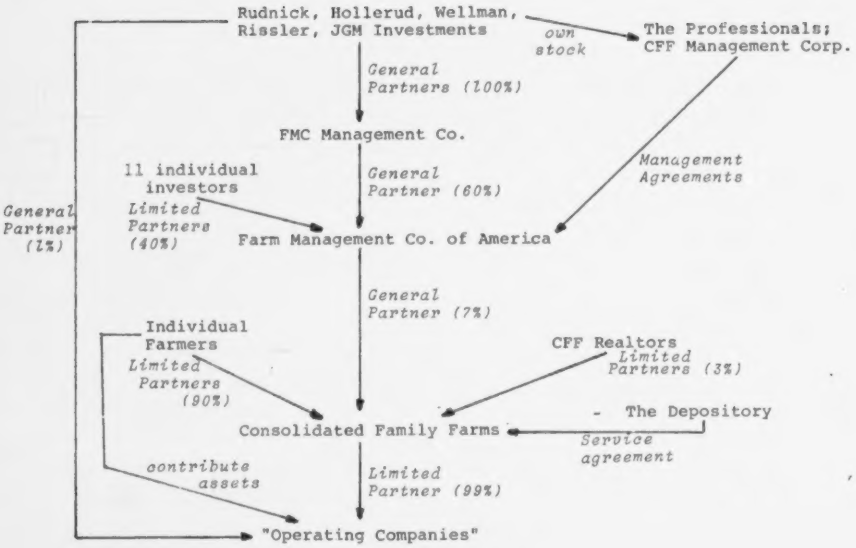
Consolidated Family Farms is looking into offers from farmers and searching out owners who fit the firm's needs, Rudnick said. "The response from farmers has been tremendous," he said.

After the firm locates an eligible farm, it will look at the operation and history of production. Then, Rundick said, the two parties will settle on a selling price.

When the firm lines up all of the farms it holds, it will begin to offer securities to the public.

Attachment "B"

CONSOLIDATED FAMILY FARMS
ORGANIZATION



Senator **Pressler**. Great. We will place all your statements and your chart in the record. I think your chart is an excellent step in trying to understand this complicated plan.

Let me ask you first of all, how many States have passed corporate farmland ownership legislation similar to that passed by Kansas?

Mr. **Southard**. I did a brief check before I came up here. As far as we can tell, most States in the Midwest have some form of law. They vary—well, enormously. As I said, Kansas law is derived fairly directly from Iowa, but even so, it varies enough so that Iowa made one ruling and we did not. Nebraska has an almost total prohibition. Most States' laws are couched in terms of a general prohibition with a number of exceptions, and that varies from State to State, and in some cases, the exceptions almost eat up the rule.

For example, I don't know what Montana has. But most of the grain-growing States in the Midwest have a general prohibition with allowances for feedlots and that kind of thing.

Senator **Pressler**. I might add that South Dakota also has a prohibition.

Let me ask you, have you had any contact or comments from bankers? Could bankers accept shares or units in the partnership as repayment for outstanding farm loans? That is, if a farmer took the shares, could he next year sign the shares over to someone else? What would his flexibility be?

Mr. **Southard**. That was, as I mentioned, one of the key concerns that we had. The Kansas bank commissioner just early on Monday, I guess it was, made a determination that as far as Kansas banks, State banks, go, they would not, by law, be allowed to accept these depositary units in return for their loans outstanding, so that in effect that knocks out about 350 banks which would be presumably heavily involved in the financing of agriculture.

If they did hold them, they would be able, I assume, to sell them on the open market for whatever they're worth. However, as has already been mentioned, there is no market at the present time for these certificates. They have no intrinsic value, and even if they were paid the $20 to start off with, there is no indication or guarantee they would be worth even a fraction of that 3 months or 6 months or 1 year down the road.

So I think it would take certainly a very speculative-minded banker to take these in return for giving up his interests on something that is certainly tangible and is not going to disappear.

Senator PRESSLER. Now, in your view what would happen to most farmers who went into this thing in the long run? They would lose title to their land but they'd be able to stay on the land, as I understand it. We'll be hearing more about that. It would provide them with a means of staying on the land if they were desperate, if they were going to have to move off next year.

But what would the state of most farmers who went into this plan be 5 years, 10 years, 15 years down the road?

Mr. SOUTHARD. Well, I think you have to first recognize that the kind of farmer who would be attracted to this plan is someone whose grip on the land is very tenuous and who is looking for something, anything, to stay on the land and isn't looking 5 years or 10 years down the road, but just trying to get the next crop in the hopes that something will improve.

A farmer who went into this scheme, as you indicated, would not have title to his land anymore. If he had a series, say, of 2 or 3 bad years in terms of weather, it would be difficult to see how he would be able to obtain any capital at all to keep going, in that he would be having to pay a cash rent, he would be shouldering all the capital expenses and yet he would have nothing now to take to a bank, to go to a lending institution with, as security.

So I think within 5 years it would be very difficult to keep somebody on the farm if they had any kind of problems with weather or falling prices or any of the other things that they now have to contend with. They're giving up basically the only thing they have which they can use to leverage capital. And farming being the kind of business it is, there are times during the year where you have a lot of money coming in and there are many months where you don't have anything coming in at all, you need to live on what you've built up. And with this plan, it's difficult to see how they'd be able to make it.

Senator PRESSLER. Just playing the devil's advocate for a moment, are we depriving some farmers of a method of financing? For example, a young dairyman said to me that the only way he could get capital and financing was in this case by taking a wealthy athlete as his partner to get a dairy farm going. There he had half the ownership and so forth—but he wouldn't have been able to get that kind of financing from the Government or his bank or any other place.

If we just rule against any schemes of this type, are we depriving some farmers of a chance of capitalization?

Mr. **Southard**. Well, under the general concept of a limited partnership, the farmer would be the general partner who's doing the managing and then the limited partners would be the ones who are injecting the capital in order to let him keep going. This plan is exactly the opposite. The general partners—in this case, FMC Management Co.—are not injecting any capital; it's the farmer as the limited partner who's putting everything in. And if he didn't have anything to start off with, this isn't the kind of plan that would do him any good at all.

This presupposes that the farmer has land that he can turn over. Somebody just starting off, I don't think they'd be able to be benefited at all by this.

Senator **Pressler**. OK. Now, this could have an impact on foreign ownership. We had a lot of discussion a few years ago about foreign citizens and corporations purchasing land in the United States. Some studies have shown that some of the figures weren't as high as we thought. Could this scheme or this plan be used by foreign investors to acquire U.S. farmland?

Mr. **Southard**. Well, since the land is now going to be expressed in terms of units of deposit, presumably anybody could buy up those units of deposit and therefore have an indirect ownership over the land even if there was a general prohibition, as many States have, of foreign ownership of agricultural land. It could be a backdoor kind of method.

Senator **Pressler**. Now, before you adopted your corporate law in Kansas, were there any groups that were buying land up, or have groups tried to buy farmland under some other schemes since? Has it pretty much stopped the pattern?

Mr. **Southard**. Kansas has had a corporate farming law for a number of years. The one we have now was revised in 1981, and there has been a general prohibition in Kansas against this kind of ownership for literally decades.

Generally, there is not much of a problem with it when times are good. Farmers don't have any interest in selling out to these kinds of entities, because they want to keep the land owned by local people. Given the conditions of the last 3 or 4 years, though, there are an increasing number of farmers who are ready to do anything to stay on the land. And that's the time that these kinds of things become more attractive, and we're seeing more and more of them now, while this is the third one we've looked at just this year. And that's certainly an upsurge over the last couple of years.

Senator **Pressler**. After the initial farmer got the shares of stock and maybe he'd farm it for 5 or 10 or 15 years or maybe the rest of his life as a renter basically, then what would happen? Would he be replaced by a bigger farm after that, or what do you envisage would happen down the road?

Mr. **Southard**. Well, again, the only thing that he would be able to pass on to his children would be these units of deposit, and those are not tied to his particular farm, they are just units in the general partnership. So he would not, unless they came to some agreement with the partnership, be able to leave anything to his family. Again, on economies of scale, he——

Senator **Pressler**. He would not be able probably to leave anything to his family?

Mr. SOUTHARD. In terms of the farm.

Senator PRESSLER. Yes.

Mr. SOUTHARD. Economy of scale could enter in where it's easier to farm one 5,000-acre wheat farm than four or five; one set of machinery centrally stored and so forth. And so I think, over the long run, it certainly would have the effect of thinning out the rural population, which is, at least in Kansas, getting pretty thin as it is. This is happening as a natural thing anyhow. Farms are getting larger just by attrition and people are not able to enter into the business.

Senator PRESSLER. Well, I want to thank you. And I am going to turn this over to Senator Baucus for his questions. I believe that your office was the first one to analyze this and speak out strongly. I am sure you did the work. I want to commend you for your fine work on the chart and the analysis you've done on this matter.

Senator Baucus.

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Southard, why is this scheme so complicated? I mean, you show us this flowchart, and my gosh, there are arrows and boxes and numbers and so forth. I think you've done a good job analyzing it. But why, in your opinion, is this arrangement so complicated?

Mr. SOUTHARD. Well, I hope that you ask the same question to the gentlemen from Consolidated——

Senator BAUCUS. Well, I plan to. [Laughter.]

Mr. SOUTHARD. Well, our people in the securities office, their feeling was that you have a whole series of transactions here, everyone is getting their cut. The realtors get 3 percent, the management corporations get 2 or 3 or 4 percent. And if you have a whole series of transactions, everybody can pull off a little off the top and it allows a lot of people to generate transactions. This is going to generate an immense number, for example, of real estate transactions, an immense number of commissions, and so forth.

So if you have a whole series of entities involved, they can all pull off a little bit and everybody shares in the pie even though they didn't have anything to do with putting the pie together in the first place.

Senator BAUCUS. So are you saying one reason it might be complicated is because in all the various transactions different people get a commission or get some percent? Is that a driving force to help encourage farmers to participate in this? Is that right? I see the real crux is whether farmers want to sign up or not.

Mr. SOUTHARD. There is no reason, as far as that goes, to have all these. You could have just one limited partnership at the bottom and it would work the same way.

Senator BAUCUS. Then why isn't this, in your judgment—and I know I'm asking for a speculative answer—but in your judgment, why isn't this set up in a limited partnership—general partnership kind of arrangement which you said could accomplish virtually the same purpose but be much more simple?

Mr. SOUTHARD. Well, again, this is an unusual kind of limited partnership in that the general partner is not contributing any of the assets. He's—the general partner is going to give management skills and the limited partner, or the farmer, are going to be putting everything in they have, and everybody is just stacked on top of the farmers. And the more people you can stack on top of the farmer, the more people are going to be able to share in the——

Senator **Baucus**. Well, I don't want to put words in your mouth, but as I hear you, you're saying it's complicated because that's the way lots of people can get the most out of putting in the least amount; that is, the general partners and others.

Mr. **Southard**. Well, I think that's a fair statement.

Senator **Baucus**. Yes; I was curious about your analysis of securities laws. As I understand it, you're saying that your State has concluded that indeed these are securities; that is, these deposit certificates. And second, that there was a solicitation because of the news releases. And, the combination of that along with the incomplete information that the company gave is virtually tantamount to a violation of Kansas State securities laws. Is that a correct statement?

Mr. **Southard**. Yes. That's—well, when a company is going to offer securities, generally the procedure is that it files its statement or registration first, and then have a prospectus, and only after that is approved does it go public.

In this case, essentially the opposite steps were taken. Consolidated Family Farms went public without filing any registration, any solicitation statement.

Senator **Baucus**. Why do you suppose they did that? I mean they presumably have lawyers that can look up to see what the Kansas securities statutes are. Why do you suppose they went at this backwards?

Mr. **Southard**. Well, it could be presumed that this was in the nature of a trial balloon; they just wanted to see how far it got before it came down. For example, mention was made earlier that they had not made any efforts to go into Nebraska because of Nebraska's corporate farming laws. The first press release that we got did in fact have Nebraska listed as one of the States that they were interested in. So presumably, they could have looked up and found that Nebraska's corporate farming laws, as well as Iowa's, would not simply allow them to do this at all.

I don't know why they got the cart before the horse, in this sense.

Senator **Baucus**. Do you know of other States where they got the cart before the horse?

Mr. **Southard**. We understand that in Missouri and, I think, in Wisconsin they had problems with the securities commissioner. They apparently did try to file in those States but had some problems with the filing itself, and so didn't get that done before they went public.

Senator **Baucus**. Do you know of any States where they got the horse before the cart?

Mr. **Southard**. Well, no, I don't know of any.

Senator **Baucus**. You don't know of any States where they've followed the law with respect to State securities?

Mr. **Southard**. No, I don't know of any. But they're again interested in 14 or 15 States, so I can't speak for all of them.

Senator **Baucus**. At least in my personal opinion they have not in Montana. I don't want to put words in the mouth of our State securities commissioner, but from public statements he has made I can very definitely infer that they have not followed the Montana law. It's questionable at this point—there's no final decision.

For just a moment, if you could speculate with me, how likely is it lenders are going to take these certificates in exchange for their loans? It just seems to me it's very unlikely that any lender is going to do that.

Mr. **Southard**. I can't imagine, even if they could by law take these certificates—and there's a real question about that—why any lender would want to do it. It's just that it's a totally new scheme. There is no market for the certificates. They have no track record. They are being asked to give up a tangible interest in real property for an interest in paper, which has no intrinsic value whatsoever. And I can't imagine a lender who is not himself in serious trouble, wanting to do that.

Senator **Baucus**. Thank you very much.

Senator **Pressler**. Thank you very much. We may have more detailed questions to submit for the record on some of the legal points. But we thank you very much.

I shall now call on Mr. Dick Hollerud and Mr. Bill McGrath of Consolidated Family Farms—or Farm Management Co. of America. Maybe we're calling this by the wrong name.

Please come forward, and we will hear your statements. We thank you very much for being with us this morning.

You may proceed any way you wish. We will hear whichever of you wishes to speak first.

STATEMENT OF RICHARD HOLLERUD, GENERAL PARTNER, CONSOLIDATED FAMILY FARMS, ACCOMPANIED BY WILLIAM McGRATH, GENERAL COUNSEL

Mr. **Hollerud**. Mr. Chairman, I would like to make it very clear as to who I am for the record and where I come from and a little bit of my background, so that we have a clear understanding of exactly who we are and where we're coming from.

Senator **Pressler**. Could the room please settle down. If there are conversations, they can take place in the hall. I am getting some signals people can't hear.

If you can move that microphone as close as possible so we can all hear.

Mr. **Hollerud**. OK. Thank you.

Senator **Pressler**. Every time we change witnesses we have a little commotion.

Mr. **Hollerud**. I come from a small town in southern Minnesota. I own a family farm. I am an owner of family farms. I was a schoolteacher for 12 years and then went into the real estate business, the farm real estate business, in northeast Iowa, which I presently still own at New Hampton, in a small community of 4,000 people, specializing in farm agriculture.

So I am very, very familiar with the family farm. I do own a family farm, as I mentioned earlier.

Today we are facing in the heartland of the United States a crisis as severe as ever experienced in the history of our Nation. Almost daily our newspapers contain articles describing the plight of rural America. Government statistics are ample to document the situation, and I can attest from my own personal experience that many, many people who have lived for generations on the family farms have seen their hopes and dreams dashed by the gavel of foreclosures in recent months.

Just this last weekend, back in my home State, I not only witnessed, I was the auctioneer at an auction of a farm. And the highest bid that came in was $500 per acre. This same farm would have sold for three to five times that price only a few years ago. We have witnessed in the last several years declining farm prices, capped in the last few weeks by one of the most severe deflations in commodity futures prices that has recently occurred.

As a licensed real estate broker in the State of Iowa, I have watched as families are driven off their farms by foreclosures. Others have been forced to sell their family farms for personal and estate-planning reasons, even though one or more children or grandchildren may desire to remain and operate the farm.

As I witness these tragedies, I could not help but wonder why this had to be. And I hoped—I had hoped—that things could change.

Approximately 2 years ago, I began working with a group in Chicago to see if some mechanism could be devised for assisting farmers to save their family farms from foreclosure and to enable them to continue to farm their land even though they may wish to divide some of the assets among various children or grandchildren.

We looked into the bankruptcy protections that were available to enable large businesses to recapitalize burdensome debt with tradeable equity securities. We locked to the capital markets for other techniques that might be applicable to the farmers which would preserve for farners the ability to continue farming and maintain an interest in agricultural properties and yet diversify their investment portfolio and work out arrangements with creditors where necessary.

The results of almost 2 years' efforts is embodied in the prospectus of Consolidated Family Farms. Through this program, farmers experiencing negative cash flows from burdensome debt are able to preserve the equity that they have in the land which, in all likelihood, would be lost through a foreclosure sale, and to continue to farm the land as many of their parents and grandparents have done and, hopefully, their children and grandchildren will continue to do.

The concept is simple, although I must say the implementation I have found to be fraught with burdensome legal technicalities and potential stumbling blocks. In a nutshell, farmers desiring to participate in the program will contribute their farms into a partnership in exchange for security interests in the partnership. This exchange, in most cases, would be tax free. Thus, instead of owning their specific parcel of property, they will own an interest in a diversified portfolio of farm properties.

Each farm will be valued based on an appraisal by Doane Farm Management Co., a major farm real estate appraisal firm, and an exchange value established for that property. This value will then be allocated between the owner of the property and, in many cases, among those holding mortgage interests or other indebtedness against the property who elect to participate in the exchange.

After the appraisal process has been completed and exchange values established for each property, a schedule will be published and distributed to each person participating in the program describing all of the property interests eligible to participate and indicating the exchange values that have been established for each such interest.

Each farmer and creditor will then be free to decide whether or not they wish to participate in the program, and partnership units will be allocated among those who elect to participate.

No farms will be purchased, since the entire partnership will be formed through an exchange offer. Thereafter, from time to time, a property may be sold or a property may be purchased. But this is not the primary focus of the program.

We are currently discussing a registered secondary public offering of the units following completion of the exchange and are reviewing proposals by several investment banking firms.

It is believed that the expected size of the asset base, the projected cash flow, and the anticipated number of holders following the exchange offer will facilitate the establishment of a public trading market.

All farmers contributing property will be offered the opportunity to rent their farm, to continue to live in the same house that they've been living in, and to work the same land that they and their families have always worked. These farmers will not—I emphasize that—will not be employed by Consolidated Family Farms, but will remain as an independent entrepreneur. The means of their production—namely, the land that they till—will not be completely separated from their ownership. Rather, they will continue to own an interest indirectly through the partnership in their land as well as in all the other lands contributed to the partnership.

Thus, they gain diversification without sacrificing equitable ownership.

The rent for each property will be initially established based on the exchange value of the property, 7.5 percent on land value, 15 cents per bushel of capacity on grain storage facilities, and 6 to 8 percent on the other improvements. This rent replaces the principle, the interest, the taxes, and the insurance which they otherwise would be obligated to pay, and restores to farmers a measure of profitability which high interest rates, low-commodity prices, unsuccessful Government programs, and the ravages of cost inflation and asset deflation have sought to deprive them.

Moreover, because farmers will receive units—that is, profit participation in the partnership—it is anticipated that they will enjoy an after-tax annual yield on their units approximately equal to 6 percent. The difference between the annual rent and the annual yield will satisfy management fees and other expenses. Thus, the farmer contributing a debt-free farm, having an appraised and agreed-upon exchange value aggregating $1 million, will be entitled to rent that farm for $75,000 a year. And it's anticipated to receive a yield of about $54,000 per year.

This is computed by subtracting from the $1 million value an initial dilution of 10 percent to cover all commissions, all startup costs, and interest of the organizers multiplied by 6 percent.

Obviously, these projections could vary based upon the property mix, the amount of depreciation, and other factors. But they represent our current best estimate of projected results.

For the debt-burdened farmers owning the same farm—for example, 500 acres at $2,000 an acre with a first mortgage of $250,000 and additional indebtedness of $500,000—in all likelihood, that farm is experiencing a negative cash flow. That is, each year, in return for his labor the farmer will owe more at the end of the year than at the beginning.

Thus, without the help of our program, the farmer faces the bleak alternative of foreclosure, distress sale, or personal bankruptcy. If the farmers and the holders of the subordinate debt elect to participate in the program, each would receive interest in the partnership in exchange for their respective indebtedness and real property interests.

Thus, the farmers may receive units having an exchange value after initial dilution and commissions of approximately $150,000. There is no assurance that these units will trade in the public market at this price, since the price may be higher or lower, assuming a trading market is established. These units would have an annual after-tax yield of approximately $9,000 per year. And the farmer would be entitled to lease back his farm and continue to operate his family farm.

Thus, the small farmer would be relieved of debt service and expenses that continually erode his financial position. His equity would be preserved and maintained. His farm operation could once again become profitable, and he would enjoy a yield on his partnership interests and have the benefits of diversification.

The subordinate creditors—often, local banks, fertilizer, chemical dealers, other suppliers, many of which are small businesses—would receive equity securities in lieu of what may otherwise have been a bad debt. Thus, the benefits of the program would extend to many businesses in the local farm communities and would be a source of stimulation to what otherwise are often stagnant economies.

I am very proud that my associates and I are able to make this contribution to farming and the preservation of the family farm in our country. We have worked very hard for the past 2 years on this program and incurred substantial expense in trying to make our dream become a reality and, in so doing, save the dreams of so many of our family farms who are suffering so severely by the farm recession.

The responses to date have been very encouraging. Farmers from over the—all over the country have been applauding our program. In certain quarters, we realize that the program has not been fully understood, and some perceive this program as a threat to our farm families. We believe that this program has been well thought through, not only from the point of view of making it a viable investment for those taking the financial risk of organizing it, but also to assure that it provides real and lasting benefits to our farm families—something which no Government program in history has yet been able to achieve and something which our capital markets and financial institutions have continuously ignored.

I thank you for the opportunity to address you today, and together with my attorney, Mr. William McGrath, I would be very pleased to answer any questions which you may have. Thank you again.

[The prepared statement of Mr. Hollerud follows:]

Statement by:

MR. RICHARD C. HOLLERUD, Partner
FARM MANAGEMENT COMPANY OF AMERICA
Suite 208
505 North Lake Shore Drive
Chicago, Illinois 60611

Before:

SENATE SMALL BUSINESS COMMITTEE
SUBCOMMITTEE ON SMALL BUSINESS: FAMILY FARMS

August 1, 1984

Today we are facing in the heartland of the United States a crisis as severe as ever experienced in the history of our nation. Almost daily our newspapers contain articles describing the plight of rural America. Government statistics are ample to document the situation, and I can attest from my personal experience that many, many people who have lived for generations on their family farms have seen their hopes and dreams dashed by the gavel of foreclosures in recent months. Just this last weekend back in my home state of Iowa, I witnessed an auction of a farm and the highest bid that came in was $500 an acre. This same farmland would have sold for 3 to 5 times that price only a few years ago. We have witnessed in the last several years declining farm prices capped in the last few weeks by one of the most severe deflations in commodity futures prices that has recently occurred.

As a licensed real estate broker, I have watched as families are driven off their farms by foreclosures. Others have been forced to sell their family farms for personal and estate planning reasons even though one or more children or grandchildren may desire to remain and operate the farm. As I witnessed these tragedies, I could not help but wonder why this had to be. And I had hope that things would change.

Approximately two years ago I began working with a group in Chicago to see if some mechanism could be devised for assisting farmers to save their family farms from foreclosure and to enable them to continue to farm their land even though they may wish to divide some of their assets among various children or grandchildren. We looked to the bankruptcy protections that were available to enable large businesses to recapitalize burdensome debt with tradable equity securities. We looked to the capital markets for other techniques that might be applicable to the farmers which would preserve for farmers the ability to continue farming and maintain an interest in agricultural properties and yet diversify their investment portfolio and work out arrangements with creditors where necessary.

The result of almost 2 years' effort is embodied in the concept of Consolidated Family Farms. Through this program, farmers experiencing negative cash flows from burdensome debt are able to preserve the equity that they have in the land which in all likelihood would be lost through a foreclosure sale and to continue to farm the land as many of their parents and grandparents have done and, hopefully, their children and grandchildren will continue to do.

The concept is simple, although I must say the implementation I have found to be fraught with burdensome legal technicalities and potential stumbling blocks. In a nutshell, farmers desiring to participate in the program will contribute their farms into a partnership in exchange for security interests in the partnership. This exchange, in most cases, will be tax free. Thus, instead of owning their specific parcel of property, they will own an interest in a diversified portfolio of farm properties.

Each farm will be valued based on an appraisal by Doane Farm Management Company, a major farm real estate appraisal firm, and an exchange value established for the property. This value will then be allocated between the owner of the property and in many cases among those holding mortgage interests or other indebtedness against the property who elect to participate in the exchange. After the appraisal process has been completed and exchange values established for each property, a schedule will be published and distributed to each person participating in the program describing all of the property interests eligible to participate and indicating the exchange values that have been established for each such interest. Each farmer and creditor will then be free to decide whether or not they wish to participate in the program and partnership units will be allocated among those who elect to participate. No farms will be purchased since the entire partnership will be formed through an exchange offer. Thereafter, from time to time, a property may be sold or purchased but this is not the primary focus of the program. We are currently discussing a registered secondary public offering of units following completion of the exchange and are reviewing proposals by several investment banking firms. It is believed that the expected size of the asset base, the projected cash flow and the anticipated number of holders following the exchange offer will facilitate the establishment of a public trading market.

All farmers contributing property will be offered the opportunity to rent their farm, to continue to live in the same house they have been living in and to work the same land that they and their families have always worked. These farmers will not be employed by Consolidated Family Farms but will remain as independent entrepreneurs. The means of their production, namely, the land they till, will not be completely separated from their ownership. Rather they will continue to own an interest indirectly through the partnership in their land as well as in all the other lands contributed to the partnership. Thus, they gain diversification without sacrificing equitable ownership.

The rent for each property will be initially established based on the exchange value of the property (7 1/2% on land value, $.15 per bushel of capacity on grain storage facilities and 6% to 8% on other buildings). This rent replaces the principal, interest, taxes and insurance which they otherwise would be obligated to pay and restores to farmers a measure of profitability which high interest rates, low commodity prices, unsuccessful Government programs and the ravages of cost inflation and asset deflation have sought to deprive them. Moreover, because farmers will receive units, i.e., profit participation in the partnership, it is anticipated that they will enjoy an after-tax annual yield on their units approximately equal to 6%. (The difference between the annual rent and annual yield will satisfy management fees and other expenses.) Thus, the farmer contributing a debt free farm having an appraised and agreed exchange value aggregating $1,000,000 will be entitled to rent that farm for $75,000 a year and is anticipated to receive a yield of about $54,000 per year. (This is computed by subtracting from the $1,000,000 value an initial dilution of 10% to cover all commissions, start-up costs and interest of the organizers multiplied by 6%.) Obviously, these projections could vary based upon the property mix, the amount of depreciation and other factors, but they represent our current best estimate of projected results.

For the debt-burdened farmers owning the same farm (for example, 500 acres at $2,000 per acre with a first mortgage of $250,000 and additional indebtedness of $500,000), in all likelihood that farm is experiencing negative cash flow. That is, each year in return for his labor, the farmer will owe more at the end of the year than at the beginning. Thus, without the help of our program, the farmer faces the bleak alternatives of foreclosure, distress sale or personal bankruptcy. If the farmers and the holders of the subordinate debt elect to participate in the program, each would receive interests in the partnership in exchange for their respective indebtedness and real property interest. Thus, the farmers may receive units having an exchange value, after initial dilution and commissions of approximately $150,000. There is no assurance that these units will trade in the public market at this price since the price may be higher or lower assuming a trading market is established. These units would have an annual after-tax yield of approximately $9,000 per year. And the farmer would be entitled to lease back his farm and continue to operate his family farm.

Thus, the small farmer would be relieved of debt service and expenses that continually eroded his financial position, his equity would be preserved and maintained, his farm operation could once again become profitable and he would enjoy a yield on his partnership interest and have the benefits of diversification. The subordinate creditors, often local banks, fertilizer and chemical dealers, and other suppliers (many of which are small businesses) would receive equity securities in lieu of what may otherwise have been a bad debt. Thus, the benefits of the program would extend to many businesses in the local farm communities and would be a source of stimulation to what otherwise are often stagnant economies.

I am very proud that my associates and I are able to make this contribution to farming and the preservation of the family farm in our country. We have worked very hard for the past 2 years on this program and incurred substantial expenses in trying to make our dream become a reality and in so doing save the dreams of so many of our farm families who are suffering so severely by the farm recession. The responses to date have been very encouraging. Farmers from all over the country have been calling and applauding our program. In certain quarters we realize that the program has not been fully understood and some perceive this program as a threat to our farm families. We believe that this program has been well thought through not only from the point of view of making it a viable investment for those taking the financial risk of organizing it but also to assure that it provides real and lasting benefits to our farm families something which no Government program in history has yet been able to achieve and something which our capital markets and financial institutions have continuously ignored. I thank you for the opportunity to address you today and together with my attorney, William McGrath, will be pleased to answer any questions which you might have.

PRELIMINARY PROSPECTUS DATED June 28, 1984

CONSOLIDATED FAMILY FARMS

- EXCHANGE OFFER -
900,000 DEPOSITARY UNITS

PREFORMATION INTERESTS

CONSOLIDATED FAMILY FARMS
(a limited partnership)

Consolidated Family Farms, an Illinois limited partnership in process of formation (the "Partnership"), hereby offers upon the terms and conditions set forth herein to exchange (the "Exchange Offer") 900,000 Depositary Units ("Units"), subject to adjustment as provided herein, such Units representing limited partnership interests ("Partnership Interests") in the Partnership, for the following interests ("Property Interests"):

a. direct interests, including fee ownership and contract purchase interests ("Direct Interests"), in land, buildings and equipment used or usable for the production of agricultural commodities, particularly the production of grainbearing crops, and for the processing, storage and distribution of agricultural products ("Agricultural Properties") and in stored feed and grain, particularly corn, wheat, milo and soybeans, growing crops, supplies and livestock ("Farm Products");

b. interests in mortgages and other indebtedness encumbering such Agricultural Properties ("Mortgage Interests");

c. interests in minerals in, on or under such Agricultural Properties ("Mineral Interests"); and

d. indirect interests ("Indirect Interests") in the form of interests in partnerships, corporations, trusts and other entities substantially all of the assets of which consist of Agricultural Properties and Farm Products or interests therein.

PURCHASE OF THESE SECURITIES INVOLVES A HIGH DEGREE OF RISK. AS A RESULT OF SEVERAL FACTORS, IT IS EXPECTED THAT THE AGGREGATE MARKET PRICE OF THE UNITS FOLLOWING THE EXCHANGE OFFER COULD BE LESS THAN THE AGGREGATE EXCHANGE VALUE. See "Factors to be Considered."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this Prospectus is , 1984.

The Units are subject to certain restrictions on their transfer. See "Factors to be Considered - Resale of Units" and "The Depositary Units."

No trading market currently exists for the Units and it is possible that no trading market will exist at any future time. See "Factors to be Considered - Market for and Value of Units."

The Exchange Offer is subject to certain conditions, including acceptance by the Partnership of not less than 10 different Property Interests, including Agricultural Properties aggregating not less than 15,000 acres of land and having an aggregate Exchange Value of not less than $25,000,000.

Owners who wish to consider tendering their Property Interests ("Owners") should furnish a Valuation Request, a form of which is included at the end of this Prospectus to Farm Management Company of America, an Illinois limited partnership, which will serve as general partner of the Partnership (the "General Partner"). This Valuation Request should be accompanied by the required Good Faith Deposit of $1.00 per acre (but not less than $1,000 nor more than $5,000). See "Exchange Offer Procedures - Good Faith Deposit." Submission of a Valuation Request does not obligate an Owner of the Property Interest to exchange such Property Interest, but in such event, certain expenses of the valuation process will be set against the Good Faith Deposit.

VALUATION REQUESTS MUST BE SUBMITTED TO THE PARTNERSHIP PRIOR TO 5:00 P.M., CHICAGO TIME, ON JULY 31, 1984, UNLESS THE PERIOD FOR TENDER IS EXTENDED.

UNTIL ______________, 1984 (90 DAYS AFTER THE DATE OF THIS PROSPECTUS), ALL DEALERS EFFECTING TRANSACTIONS IN THE SECURITIES REGISTERED HEREBY, WHETHER OR NOT PARTICIPATING IN THIS DISTRIBUTION, MAY BE REQUIRED TO DELIVER A COPY OF THIS PROSPECTUS. THIS IS IN ADDITION TO THE OBLIGATION OF DEALERS TO DELIVER A PROSPECTUS WHEN ACTING AS SOLICITING DEALERS.

No dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Prospectus in connection with the offer made by this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Partnership. Neither the delivery of this Prospectus nor any sale pursuant hereto shall under any circumstances create an implication that there has been no change in the affairs of the Partnership or the other entities described herein since the date hereof. This Prospectus does not constitute an offer to sell or solicitation of an offer to buy any securities other than the securities being registered hereunder nor an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation.

The Depositary Units will be offered to Owners of Property Interests only by the General Partner and its general partners, who will use their best efforts to find Owners who desire to acquire Units through the Exchange Offer. These persons will receive no compensation for their services in locating such Owners. Under the terms of the Limited Partnership Agreement of the Partnership (the "Partnership Agreement"), the General Partner is entitled to receive an aggregate of 70,000 Units in exchange for the payment by the General Partner of all Costs and Expenses of this Exchange Offer, including all filing fees and accounting, legal, printing and other fees and expenses relating to the registration and public offering of the Units and the valuation of Property Interests, but not the costs and expenses associated in the Closing of the Exchange Offer or the transfer of Property Interests to the Partnership. See "Capitalization - The Partnership" and "Plan of Distribution."

CFF Realtors, an Illinois limited partnership (the "Real Estate Coordinator"), an affiliate of the General Partner and licensed real estate broker, will act as Real Estate Coordinator of the Exchange Offer and will be a limited partner in the Partnership. CFF Realtors is entitled to receive an aggregate of 30,000 Units. The Real Estate Coordinator may arrange for other licensed real estate brokers and sales personnel to submit Property Interests. The Real Estate Coordinator may reallow to each licensed real estate broker and salesman named in a Valuation Request one Unit for every 60 Units issued in the Exchange Offer for the Property Interests described in such Valuation Request. Neither CFF Realtors nor any real estate broker, finder or sale personnel are authorized to perform (and are expressly prohibited from performing) any function of securities brokers/dealers, including advising Owners as to matters relating to the Units or the potential trading market therefor or relating to the Partnership or its management or prospects, participating in negotiations between the Partnership or General Partner and any Owner as to the Exchange Value of any Property Interest, or soliciting or participating in the solicitation of any Reconfirmation Forms. See "Closing Procedures - Real Estate Commissions and Finders' Fees" and "Plan of Distribution" for additional information concerning fees and expenses to be paid to the Real Estate Coordinator and other licensed real estate brokers under certain circumstances.

The Partnership will indemnify the General Partner (and each of its partners) and the Real Estate Coordinator against certain civil liabilities, including liabilities under the Securities Act of 1933, as amended.

Assistance in completing the Valuation Request can be obtained by telephoning:

Consolidated Family Farms
c/o Farm Management Company of America
505 North Lake Shore Drive
Suite 208
Chicago, Illinois 60611
312-661-7000

TABLE OF CONTENTS

Page
Introductory Statement.. 6
Prospectus Summary... 10

Factors to be Considered... 17
    Lack of Operating History or Historical Financial Information... 17
    Market for and Value of Units....................................... 17
    Dilution.. 18
    Exchange Values.. 18
    Resale of Units.. 18
    Tax Consequences... 19
    Distributions Less Than Cash Flow.................................. 19
    Risks of Ownership of Farmland and Agricultural Properties...... 20
    Governmental Programs.. 20
    Purchases and Sales of Futures Contracts.......................... 20
    Partnership Management... 21
    Potential Conflicts of Interest.................................... 21
    Operating Arrangements... 22
    Access to Capital Markets.. 22
    Assumed Liabilities.. 22
    Confidential Information... 22
    Leveraged Capital Structure.. 22
    Market for and Value of Debentures................................ 23

The Exchange Offer.. 23
    General... 23
    Conditions of the Exchange Offer.................................. 24

The Depositary Units... 24
Description of Property Interests..................................... 27
Determination of Exchange Values....................................... 27
    General... 27
    Valuation Procedure.. 28
    Appraisal Reports.. 29
    Agricultural Properties.. 30
    Mortgage Interests... 30
    Indirect Interests... 30
    Buildings, Equipment, Inventory, Farm Products and Adjustments.. 30
    Information Sources.. 31
    Letters of Acceptance.. 31

Exchange Offer Procedures.. 31
    Valuation Requests... 31
    Preliminary Review... 32
    Additional Information... 32
    Good Faith Deposit... 33
    Valuation Procedures... 34
    Letters of Acceptance.. 34
    Representations and Covenants..................................... 35
    Special Requirements for Certain Owners.......................... 36
    Title Insurance and Abstracting Deposits......................... 36
    Acceptance Date.. 37
    Final Prospectus and Reconfirmation............................... 37
    Validity of Tenders and Reconfirmations.......................... 38
    Rejection and Withdrawal of Property Interests.................. 38

Closing Procedures... 38

Page
  - Delivery of Deeds and Documents 38
  - Closing Costs 39
  - Closing Adjustments 39
  - Escrow of Units and Title Defects 39
  - Closing Conditions 40
  - Exchange Date and Issuance of Units 41
  - Real Estate Commissions and Finders' Fees 41
  - Payment of Expenses 42
  - Local Laws 42

- Capitalization 43
  - The Partnership 43
  - Recapitalization 44
  - The Operating Companies 44

- Dilution 45

- Business 46
  - General 46
  - Management Arrangements 46
  - Operating Arrangements 47
  - Investment Policies 47
  - Competition and Regulation 48

- Agreement to Exchange Debentures for Units 49
  - Market for and Values of Debentures 49
  - Events Affecting Debenture Exchange Offer 49
  - Effect on Partnership 50
  - Description of Debentures 50
  - Limitation of Claims in Bankruptcy 53
  - Information Concerning the Trustee 53
  - Federal Income Tax Consequences of Debenture Exchange Offer 53
  - Stock Exchange Listing 57

- Management 57

- The General Partner 59

- Potential Conflicts of Interest 61

- Plan of Distribution 62

- The Parntership 63
  - General 63
  - Business and Purpose 64
  - Summary of Limited Partnership Agreement 65
  - Affiliated Companies and Operations 69
  - The Depositary 69

- Principal Unitholders 70

- Certain Federal Income Tax Consequences 70
  - The Exchange Offer 70
  - Partnership Operations 76
  - Resale of Units 87

- Experts 88
- Additional Information 89
- Tables 90
- Pro Forma Financial Statements 92
- Exhibits 93

INTRODUCTORY STATEMENT

Formation of the Partnership

Consolidated Family Farms (the "Partnership") is in the process of formation for the purpose of creating by means of this Exchange Offer a public company engaged in the ownership and leasing or operation of diverse Agricultural Properties (particularly farms engaged primarily in the production of grain located in the Central United States). The Exchange Offer is conditioned upon, among other things, the exchange of Property Interests in a minimum of 10 different Agricultural Properties having an aggregate Exchange Value of not less than $25,000,000 and including Agricultural Properties having no less than an aggregate of 15,000 acres.

The General Partner will establish an exchange value for each tendered Property Interest (the "Exchange Value") based upon:

(i) its valuation of such Property Interest based upon:

(A) certain criteria for valuation (the "Valuation Criteria") set forth herein,

(B) a market value appraisal of the Agricultural Properties as prepared by an independent appraisal firm with properly designated appraisers selected by the General Partner, and

(C) any recent appraisal and financial and other information submitted by the Owner,

(ii) the General Partner's detailed analysis of the Property Interest with the assistance of Peat, Marwick, Mitchell & Co. ("Peat Marwick"), certified public accountants, and

(iii) where appropriate, negotiation with the Owner thereof.

In no instance will the Exchange Value of a Property Interest exceed the estimated market value, less liabilities assumed, of such Property Interest set forth in the market value appraisal report submitted by the independent appraisal firm for each such Agricultural Property (the "Appraisal Reports"), a summary of which estimates is set forth in Exhibit A. The number of Units issuable for a Property Interest will be determined by multiplying 900,000 by the fraction the numerator of which is the Exchange Value of the respective Property Interest and the denominator of which is the aggregate Exchange Value of all Property Interests being exchanged. See "Determination of Exchange Values" and "Exchange Offer Procedures - Valuation Procedures."

Upon completion of the Exchange Offer, some or all of the Property Interests may be contributed by the Partnership to one or more other limited partnerships in which the Partnership will be the sole limited partner (the "Operating Companies"). Farm Management Company of America, an Illinois limited partnership will serve as general partner of the Partnership and will be responsible for all aspects of the Partnership's management and operations FMC Management Co., an Illinois partnership which also serves as general partner of Farm Management Company of America, will serve as general partner of each of the Operating Companies and will contribute to such respective operating companies, in installments, an amount equal to 1% of the fair market value of the property contributed (based on the trading price of the Units issued for such property over a 90 day period) in exchange for a 1% interest in all profits, losses and distributions therefrom. FMC Management Co. reserves the right to form one or more limited partnerships, of which it will be the general partner, to serve as general partner of one or more Operating Companies. See "Capitalization - The Operating Companies."

Under the terms of the Partnership Agreement, the Partnership will enter into agreements for management services with CFF Management Corporation, an affiliate of the General Partner, and for administrative services with The Professionals, Inc., also an affiliate of the General Partner. See "Management," "The General Partner," and "Potential Conflicts of Interests."

The General Partner has entered into an agreement with Doane Farm Management Company ("Doane" or the "Independent Appraisal Firm") to provide independent market value appraisals for each Agricultural Property for which a Property Interest is tendered and which is so designated for appraisal by the General Partner after its preliminary review of such Property Interest. Doane has had no prior association with the General Partner and is not in any way affiliated with the General Partner or any other individual or entity associated with the General Partner or a related company. See "Determination of Exchange Values" and "Exchange Offer Procedures - Valuation Procedures."

Objectives of the Exchange Offer

The principal purpose of the Exchange Offer is to create a public agribusiness company which will be able to provide long-term appreciation, capital gains, cash distributions, liquidity and a vehicle for recapitalization of debt-burdened farms and to take advantage of certain financial and operating economies of scale. The Exchange Offer will enable Owners of Property Interests to exchange their Property Interests for securities which may be more marketable.

The Partnership anticipates that its size and public ownership will enable it both to recapitalize Agricultural Properties having current debt service requirements in excess of current cash flow by substituting equity interests in lieu of part or all of such indebtedness as well as to make available to Owners of such Agricultural Properties a number of advantages not readily accessible to an individual Owner of a Property Interest, such as the obtaining of financing on more favorable terms, the availability of greater resources for the conservation, maintenance and upgrading of Agricultural Properties, the provision of professional managerial and administrative personnel, the negotiation of more favorable terms with management companies, the achievement of certain economies in purchasing, selling, storing, transporting and other aspects of operations, and the ability to compete effectively for the lease or acquisition of additional properties. There can be no assurance, however, that any of these anticipated benefits will be realized.

General Partner's Property Interests

The General Partner and its affiliates presently intend to recommend for inclusion in the Exchange Offer one or more Agricultural Properties in which they have Property Interests. The inclusion of certain of such Property Interests will in some cases require the approval of unaffiliated investors in such Property Interests, which approval, if given, will be dependent upon such investors' evaluations of the final terms and conditions of the Exchange Offer as they pertain to such investors, including the number of Units to be exchanged for such Property Interests. No assurance can be given as to the approval of such investors (or of certain other persons whose consent may be required), as no offer has yet been made to them and, accordingly, they have not yet had the opportunity to consider the Exchange Offer. Similarly, any such Exchange Offer will be subject, in addition to the independent market value appraisal and valuation, to the approval of the disinterested members of the Advisory Board. See "Potential Conflicts of Interests."

Possible Advantages to Owners

Ownership of the Units is intended to provide Owners of the Property Interests exchanged pursuant hereto with certain advantages not typically associated with the ownership of individual Agricultural Properties. These may include:

- -- enhanced liquidity through the ownership of a security which may be sold in a public trading market or used as collateral for borrowings;
- -- greater flexibility in recapitalizing Agricultural Properties that are presently burdened with excessive indebtedness;
- -- opportunities for individualized tax and estate planning;
- — diversification of risk resulting from indirect ownership in the Partnership's diversified portfolio in lieu of a direct investment concentrated in a single farm or a limited number of Agricultural Properties;
- -- freedom from ownership and management responsibilities;
- — ownership in a company which enjoys financial and operating economies of scale and other benefits derived from professional management of a large portfolio of Agricultural Properties;
- -- ownership in a company which has available financial resources to conserve and upgrade existing Agricultural Properties and for other purposes;
- -- purchasing and marketing economies realized through the Partnership's larger volume and professionally managed purchasing and marketing programs;
- -- ability to sell or make gifts of portions of the investment from time to time, rather than liquidating the entire investment; and
- -- in a case where an Agricultural Property has multiple owners, the ability of each owner to deal separately with his ownership interest.

Tax Information

The General Partner will prepare and furnish within 75 days after the close of the Partnership's fiscal year to each person who was the holder of record of a Depositary Unit during such year, the information reasonably available to the Partnership as may be necessary for the preparation of such person's United States federal income tax return and any state income tax returns required of such person as a result of the operations of the Partnership.

Other Documents

Reference should be made to the draft of the Partnership Agreement attached hereto as Exhibit B for complete information concerning the rights and obligations of the parties thereto. Certain provisions of this Agreement and other agreements are summarized in this Prospectus, but SUCH SUMMARIES ARE NOT COMPLETE AND THEREFORE NOT WHOLLY ACCURATE. Accordingly, reference should be made to the documents themselves for a more complete understanding of this transaction. Exhibit C to this Prospectus contains a schedule of documents available for inspection by prospective investors and their advisors at the addresses and telephone numbers for the General Partner set forth herein.

General Partner and Affiliates

The following is a schematic representation of the relationship between the Partnership, the General Partner and certain affiliates of the General Partner.

Affiliates

CFF MANAGEMENT CORPORATION

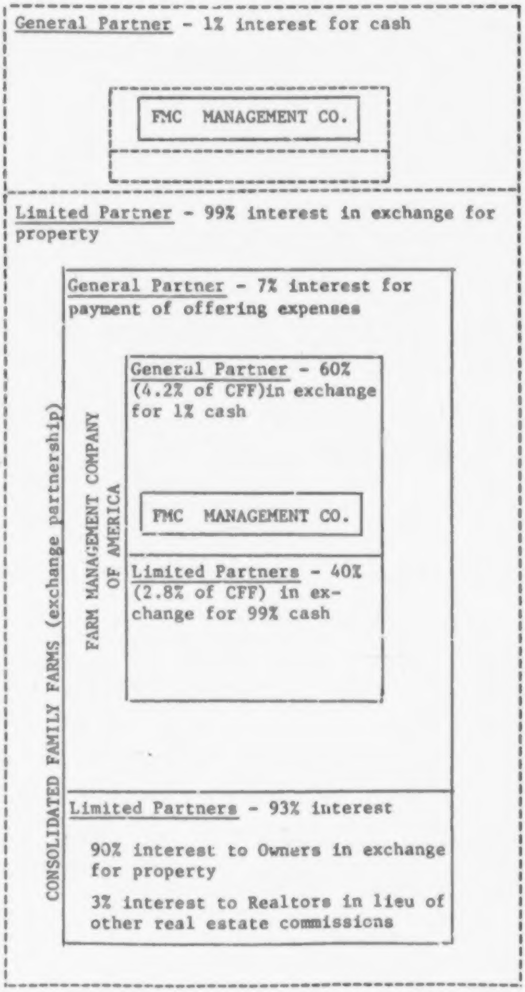
Performs management services for the Partnership and Operating Companies in return for compensation equal to 5% of all rents and 12% of other receipts (except investment income)

THE PROFESSIONALS, INC.

Performs administrative services for the Partnership and Operating Companies in return for compensation equal to 2 1/2% of gross revenues and 1% of all funds available for investments

CFF REALTORS

Units equal to 3% of total issued in exchange offer (a portion of which may be reallocated to other realtors) in lieu of real estate commissions



General Partner - 1% interest for cash

Limited Partner - 99% interest in exchange for property

General Partner - 7% interest for payment of offering expenses

General Partner - 60% (4.2% of CFF)in exchange for 1% cash

Limited Partners - 40% (2.8% of CFF) in exchange for 99% cash

Limited Partners - 93% interest

90% interest to Owners in exchange for property

3% interest to Realtors in lieu of other real estate commissions

FMC MANAGEMENT CO.
(OPERATING COMPANIES)
CONSOLIDATED FAMILY FARMS (exchange partnership)
FARM MANAGEMENT COMPANY OF AMERICA
FMC MANAGEMENT CO.

PROSPECTUS SUMMARY

THE FOLLOWING SUMMARY IS QUALIFIED IN ITS ENTIRETY BY THE MORE DETAILED INFORMATION AND THE FINANCIAL INFORMATION APPEARING ELSEWHERE IN THIS PROSPECTUS.

Factors to be Considered

Participation in the Exchange Offer carries with it certain risks of which Owners should be aware. See "Factors to be Considered."

Property Interests Sought in the Exchange Offer

The General Partner is seeking Direct Interests, Mortgage Interests, Mineral Interests and Indirect Interests in Agricultural Properties to be exchanged for Depositary Units representing Limited Partnership Interests ("Partnership Interests"). The General Partner is seeking, to the maximum extent possible, Property Interests which are income-producing and which generate a positive cash flow; however, the General Partner expects that the Partnership will acquire certain Property Interests which may not meet that criterion but which are subject to indebtedness terms which the General Partner deems to be satisfactory. The General Partner is seeking Agricultural Properties which are geographically dispersed, seasonally diverse and of varied types, although it is anticipating that a substantial majority of the Agricultural Properties to be exchanged will be grain producing farms located in the grain belt of the Central United States. The Property Interests which become the subject of the Exchange Offer will be listed in Table I in the Final Prospectus. See "The Exchange Offer."

Exchange Value

An aggregate of 900,000 Units will be issued to the Owners in the Exchange Offer. The number of Units to be delivered to each Owner will be determined by multiplying 900,000 by the fraction, the numerator of which is the Exchange Value of such Owner's respective Property Interest and the denominator of which will be the aggregate Exchange Value of all Property Interests to be exchanged. As part of the Closing of the Exchange Offer, the aggregate number of Units to be issued in the Exchange Offer will be adjusted through a recapitalization so that the Exchange Value per Unit will be approximately $20. The number of Units theretofore issued and the number of Units issuable in the Exchange Offer will be proportionately adjusted so that the per unit Exchange Value multiplied by the number of Units to be issued equals the same aggregate Exchange Value before and after the recapitalization. See "Capitalization - Recapitalization."

Determination of Exchange Value

The General Partner will establish an Exchange Value of each Property Interest based upon an independent market value appraisal of the Property Interest, upon its own detailed analysis, with the analysis of Peat Marwick, of the Property Interest and the various factors affecting the value thereof, and, where appropriate, upon negotiations between the representatives of the Partnership and the Owner. The market value appraisals will be conducted or supervised by the Independent Appraisal Firm selected by the General Partner in order to provide a uniform appraisal format in connection with the determination by the General Partner of the Exchange Values of the various Property Interests. In no case will the Exchange Value of a Property Interest exceed the value set forth in the Appraisal Reports. See "Determination of Exchange Values."

The General Partner believes that the Exchange Values, as so determined, will be fair and reasonable. However, the Property Interests which may be tendered are diverse, and the valuation of Agricultural Properties is not an exact science, but rather is the result of subjective judgments (which may vary widely) as to certain elements of value. Accordingly, there can be no assurance that the Exchange Values assigned to the Property Interests acquired by the Partnership will equal their actual market value or that the Exchange Values of all Property Interests accepted by the Partnership will be comparable. To the extent that Exchange Values are not comparable, certain Owners may benefit from the Exchange Offer to the detriment of other Owners. In addition, as a result of several factors, it is expected that the market price of the Units following the Exchange Offer may be less than the Exchange Value. See "Factors to be Considered -- Market for and Value of Units" and "Determination of Exchange Values."

Depositary Units

Holders of Units (other than Nonresident Aliens, Foreign Businesses or Foreign Governments, each as defined in the Partnership Agreement) will be entitled, subject to certain limitations, upon execution of a request for admission, the Partnership Agreement and a power of attorney, to become Limited Partners. No Nonresident Alien, Foreign Business or Foreign Government (other than an Owner) is permitted to become a Limited Partner in the Partnership and ownership of Depositary Units by such persons or entities may also be restricted by rules from time to time established by the General Partner. The Units are subject to certain restrictions on their transfer. See "Factors to be Considered - Market for and Value of Units," "The Depositary Units" and "The Partnership - Summary of Limited Partnership Agreement."

Tax Consequences

The Exchange Offer is intended to be a transaction described in Section 721(a) of the Internal Revenue Code of 1954, as amended (the "Code") which provides that, with certain exceptions (particularly as they may relate to Mortgage Interests), no gain or loss will be recognized to the Partnership or to any Owner as a result of the Exchange. See "Certain Federal Income Tax Consequences - Consequences of the Exchange Offer."

The discussion of the tax consequences contained in this Prospectus is a general one and does not purport to describe completely all federal, nor to describe at all any state, local and foreign tax consequences (which may be significant) to Owners. Therefore, each Owner is advised to consult with his personal tax advisor. See "Certain Federal Income Tax Consequences."

Management

Following the Exchange Date, ownership of some or all of the Agricultural Properties exchanged hereunder may be transferred to one or more Operating Companies. The General Partner is responsible for the management of the Partnership and is entitled to designate at least three members of the Partnership's Advisory Board. FMC Management Co., the general partner of the General Partner, is responsible for the management of the Operating Companies. Each of the Partnership and Operating Companies will enter into a Management Agreement with CFF Management Corporation, an affiliate of the General Partner, to provide certain management services (the "Management Services") for which CFF Management Corporation will be compensated in an amount equal to five percent (5%) of all cash receipts from rents and up to twelve percent (12%) of receipts from other operations, such as custom farming, generated from whatever source (the "Management Fee"), out of which all other management fees (but not operating expenses, including legal and accounting fees, or administrative expenses, including the Administrative Services Fee, of the Partnership) must be paid. Each of the Partnership and Operating Companies will enter into an Administrative Services Agreement with The Professionals, Inc., an affiliate of the General Partner, to provide certain administrative services (the "Administrative Services") for which The Professionals, Inc. will be compensated in an amount equal to two and one-half percent (2-1/2%) of total gross revenues and 1% annually of all funds available for investment (the "Administrative Services Fee"). The General Partner has agreed to pay the Costs and Expenses of the Exchange Offer, estimated to be approximately $750,000.

Certain affiliates of the General Partner have indicated a willingness to exchange some or all of their Property Interests (approximately 4,500 acres) in the Exchange Offer on the same terms and conditions as other Owners. Although the General Partner is recently organized, each of the general partners of the General Partner has experience in real estate and/or farm investment, management and production. See "The General Partner."

After the Exchange Offer, the Agricultural Properties will be managed by CFF Management Corporation pursuant to the Management Agreement and by such various other management companies under the supervision of CFF Management Corporation as such corporation may retain. All fees and charges for such other management services will be paid by CFF Management Corporation out of the Management Fee payable to CFF Management Company. See "Management." The CFF Management Company has indicated that it intends to enter into leases and operating arrangements with many Owners who participate in the Exchange Offer with respect to the Agricultural Properties exchanged by such Owners as well as other Agricultural Properties as available and appropriate. See "Business - Management Arrangements."

Agreement to Exchange Debentures for Units

Not earlier than January 1, 1986 nor later than December 31, 1987, the Partnership (or one or more of the Operating Companies) will offer (the "Debenture Exchange Offer") to exchange its 9% Subordinated Debentures (the "Debentures"), having a maturity of 15 years from the date of issuance and principal amount equal to the Per Unit Exchange Value, for at least 25% of the Units outstanding at the time of such offer (other than certain Units held by the General Partner and its affiliates). Interest will be payable semiannually. The Debentures will have a 20% annual sinking fund beginning at the end of the eleventh year and will be callable at 100% of principal amount, in whole or in part, at any time.

The purpose of the Debenture Exchange Offer is to give holders of Units an opportunity, if they desire, to exchange a portion of their Units for debt securities with a stated interest rate and fixed maturity. See "Agreement to Exchange Debentures for Units" and "Factors to be Considered -- Market for and Value of Units" for a discussion of the terms, conditions and possible effects of the Debenture Exchange Offer and of events which may affect the Partnership's ability to consummate the Debenture Exchange Offer. See also "Factors to be Considered -- Market for and Value of Debentures."

Ownership and Control of the Partnership

Upon consummation of the Exchange Offer, Owners (which includes the holders of Units received by affiliates of the General Partner in exchange for Property Interests) will own 90%, and the General Partner and its affiliates will own up to 10%, of the Units. Upon consummation of the Debenture Exchange Offer, depending upon the number of Units exchanged for Debentures, the General Partner and its affiliates (who have agreed not to exchange the Units presently owned by them in the Debenture Exchange Offer) will own a greater percentage, perhaps a substantially greater percentage of the Units of the Partnership then outstanding. See "Capitalization" and "Principal Unitholders."

Distributions

The General Partner will cause the Partnership from time to time to make distributions in an amount to be determined by the General Partner. There can be no assurance, however, as to the amount of cash which will be available for distribution and, consequently, no assurance that distributions will in fact be made. See "The Partnership -- Distributions." Distributions may be limited under certain circumstances by the provisions of the Indenture pursuant to which the Debentures will be issued. See "Agreement to Exchange Debentures for Units."

Submission Procedure

Owners of Property Interests who believe that they may be interested in participating in the Exchange Offer should follow the procedures set forth under "Exchange Offer Procedures." Generally, these procedures involve the following steps:

(1) The Owner or Owners of each Property Interest should submit to the Partnership a Valuation Request (a form of which is included at the end of this Prospectus) together with a deposit (the "Good Faith Deposit") to be held by Harris Trust & Savings Bank, as escrow agent (the "Escrow Agent"), which Good Faith Deposit will be returned to the Owner except under certain circumstances. See "Exchange Offer Procedures -- Good Faith Deposit." The amount of the Good Faith Deposit shall be $1.00

per acre, but in no event less than $1,000 nor more than $5,000. No interest will be earned on, or paid to Owners in respect of, the Good Faith Deposit nor will Owners be charged escrow fees. Valuation Requests and Good Faith Deposits must be submitted prior to 5:00 P.M., Chicago time, on July 31, 1984 (the "Tender Date"), unless the Tender Date is extended. Valuation Requests and Good Faith Deposits should be sent to the Partnership c/o Farm Management Company of America, at the address stated on page 3 of this Prospectus.

(2) Upon receipt of a Valuation Request, and Good Faith Deposit, the Partnership will make an initial review based upon the information included in the Valuation Request. If, on the basis of such review, the Partnership believes that the Property Interest may be suitable for inclusion in the Exchange Offer, the Partnership will request the Owner to provide further detailed information. If the Partnership does not believe that the Property Interest is suitable for inclusion in the Exchange Offer, the Owner will be notified and the Good Faith Deposit returned without interest.

(3) After receipt of all requested information, the Partnership will undertake a detailed review of the Property Interest. If such review confirms the suitability of the Property Interest for inclusion in the Exchange Offer, the Property Interest will then be subject to an independent valuation, including an independent market value appraisal made for the Partnership in accordance with uniform appraisal standards, an analysis of historical financial statements and tax returns and records, a legal review, and a review of soil tests, marketing data and other information, in order to determine the acceptability of the Property Interest and the Exchange Value thereof. See "Determination of Exchange Values." The Partnership will furnish a Letter of Acceptance to the Owner of each Property Interest it wishes to include in the Exchange Offer, which will set forth the Exchange Value of such Property Interest and certain other terms and conditions of the Exchange Offer.

(4) An Owner may have his Property Interest included in the Exchange Offer by executing the Letter of Acceptance and returning it to the Partnership, together with the title insurance or abstract deposit required to be delivered therewith, in the form of a check payable to the Escrow Agent. See "Exchange Offer Procedures -- Letters of Acceptance." Executed Letters of Acceptance must be received by the Partnership prior to 5:00 P.M., Chicago time, on August 31, 1984 (the "Acceptance Date"), unless such date is extended by the Partnership.

(5) As soon as practicable thereafter, the Partnership will provide each tendering Owner with the Final Prospectus, which will include information concerning the Property Interests included in the Exchange Offer, pro forma financial statements and operating data of the Partnership, a Reconfirmation Form and a statement of required transfer documents. Owners may accept the Exchange Offer by executing and delivering a Reconfirmation Form and the required transfer forms to the Partnership before the date (the "Reconfirmation Date") specified in the Final Prospectus, unless such date is extended by the Partnership. The Reconfirmation Date will be at least 10 days after the delivery of the Final Prospectus to Owners. Reconfirmations are irrevocable and may not be withdrawn by the Owner.

(6) The Property Interests will be transferred, the Units issued and the Exchange Offer consummated after the Reconfirmation Date on a date to be designated by the General Partner (the "Exchange Date").

Rejection or Withdrawal of Property Interests

A PROPERTY INTEREST MAY BE WITHDRAWN BY THE OWNER AT ANY TIME PRIOR TO HIS EXECUTION AND DELIVERY OF A RECONFIRMATION FORM. WITHDRAWAL BY THE OWNER OF A PROPERTY INTEREST AFTER HE HAS RECEIVED A LETTER OF ACCEPTANCE WILL, IN MOST INSTANCES, RESULT IN FORFEITURE OF HIS GOOD FAITH DEPOSIT AND TITLE INSURANCE DEPOSIT. FAILURE TO RECONFIRM WILL CONSTITUTE A WITHDRAWAL. The Partnership has the right at any time prior to the delivery of the Final Prospectus to reject any Property Interest for any reason and refuse to include it in the Exchange Offer. See "Exchange Offer Procedures - Rejection and Withdrawal of Property Interests."

Conditions to Consummation of the Exchange Offer

Consummation of the Exchange Offer is conditioned in part upon the acceptance by the Partnership of tenders of Property Interests in not less than 10 Agricultural Properties having an aggregate Exchange Value of at least $25,000,000 and including farms having no less than an aggregate of 15,000 acres.

The consummation by the Partnership of the Exchange Offer with respect to each Property Interest will also be subject to certain additional conditions, which may be waived by the General Partner in its discretion, relating to receipt of good and marketable title to such Property Interest and of required consents and opinions, the absence of material adverse changes and certain other matters. See "Closing Procedures—Closing Conditions."

Selected Pro Forma Information

The following table setting forth selected unaudited pro forma operating data (as prepared by the General Partner based on information provided by Owners) for the Partnership will be provided in the Final Prospectus. The amounts set forth under 100% Acceptance and Minimum Acceptance will be shown for illustrative purposes only. The actual financial condition, properties and results of operations of the Partnership will depend, among other things, on the actual Property Interests exchanged. See "Pro Forma Financial Statements."

	(100% Acceptance $ Exchange Value)	(Minimum Acceptance $ Exchange Value)
	(Thousands of Dollars)	
Pro Forma Operating Data (projected for the first 12 months of operation):.........		
Total Revenues..................	[TO BE PROVIDED IN FINAL PROSPECTUS]	
Net Income......................		
Net Income Per Unit.............		
Pro Forma Balance Sheet Data (as of the Exchange Date):..........................		
Assets..........................		
Liabilities.....................	[TO BE PROVIDED IN FINAL PROSPECTUS]	
Equity..........................		

FACTORS TO BE CONSIDERED

In evaluating the Exchange Offer, Owners should consider the following factors, among others:

Lack of Operating History or Historical Financial Information

The Partnership, the Operating Companies, the General Partner, FMC Management Co. and CFF Management Corporation are each recently formed or in the process of formation, having no financial or operating history and employing a limited number of management personnel. CFF Management Corporation intends to increase its managerial and staff personnel as necessary. There can be no assurance, however, that such additional personnel will be available to CFF Management Corporation if needed. The pro forma financial statements may not be indicative of the actual operating results of the Partnership. See "Business -- General."

Market for and Value of Units

No market currently exists for the Units. There can be no assurance that a market will exist at any future time. The Partnership cannot predict the price at which the Units will trade following consummation of the Exchange Offer. The Exchange Value for each Property Interest to be exchanged in the Exchange Offer will be determined based upon the application of pre-established criteria which may be deemed to be arbitrary and not reflective of actual fair market value. It is expected that the aggregate market price of the Units issued to Owners in the Exchange Offer following the Exchange Offer could be less than the aggregate Exchange Value determined for the Property Interests at the time of the Exchange. Upon consummation of the Exchange Offer, the net tangible value per Unit will be less than the Exchange Value per Unit, partly because of the issue of additional Units to the General Partner and to the Real Estate Coordinator. See "Dilution." In addition, the securities of most real estate companies trade at market prices which are less than the equivalent of the fair market value of their assets less their liabilities. Moreover, if a significant number of Units are offered for sale in a relatively short period after the consummation of the Exchange Offer, or at any time thereafter, the market price of the Units can be expected to be less than it otherwise would have been. Also, the Partnership at the time of the Exchange will have no operating history.

The market for the Units may also be affected by the Debenture Exchange Offer. Exchange of Units for Debentures pursuant to the Debenture Exchange Offer could reduce by 25% or more the number of Units that might otherwise trade publicly and, depending upon the number of Units actually exchanged, could adversely affect the liquidity and market value of the remaining Units.

In addition, the market price of the Units will be affected by numerous other factors which the Partnership cannot foresee or control, such as the general state of the economy and the farm industry and conditions in financial markets. Accordingly, IN NO EVENT SHOULD THE EXCHANGE VALUES BE TAKEN TO NECESSARILY REPRESENT THE AMOUNT WHICH COULD BE REALIZED THROUGH THE SALE OF UNITS ISSUED IN EXCHANGE FOR PROPERTY INTERESTS.

Dilution

Upon consummation of the Exchange Offer, the General Partner of the Partnership, the Real Estate Coordinator and other real estate brokers and finders will own an aggregate of 10% of the then outstanding Units. The cash for which such Units are issued is expected to be substantially expended in connection with the Exchange Offer. Because Property Interests tendered by Owners will constitute substantially all the tangible assets of the Partnership, Owners will incur an immediate dilution of approximately 10% of the net tangible value of Units upon consummation of the Exchange Offer. See "Dilution."

Exchange Values

The General Partner believes that the Exchange Values will be fair and reasonable, since the Exchange Value of each Property Interest will be determined by the same process and based upon the same criteria. However, the Property Interests which may be tendered are diverse and the valuation of Property Interests is not an exact science, but rather is the result of subjective judgments which may vary widely. Accordingly, THERE CAN BE NO ASSURANCE THAT THE EXCHANGE VALUES ASSIGNED TO THE PROPERTY INTERESTS ACQUIRED WILL EQUAL THEIR ACTUAL FAIR MARKET VALUE, OR THAT THE EXCHANGE VALUES OF ALL PROPERTY INTERESTS ACCEPTED BY THE PARTNERSHIP WILL BE COMPARABLE. To the extent that specific Exchange Values are not comparable, certain Owners may benefit from the Exchange Offer to the detriment of other Owners. See "Determination of Exchange Values -- General."

Values of Agricultural Properties, as all real estate, may vary over time. Because the Agricultural Properties will be valued as of a date before the Exchange Date (and different Agricultural Properties will be valued as of different dates), the value of each Agricultural Property on the Exchange Date may vary from the value of the Agricultural Property used by the the General Partner in calculating its Exchange Value.

Resale of Units

Each Owner accepting the Exchange Offer will be required to represent in his Letter of Acceptance that he has not made, and will not make prior to the Exchange Date, any commitment (whether legally binding or otherwise) to sell or otherwise dispose of the Units to be received by him pursuant to the Exchange Offer. However, except as stated below, after the Exchange Date each Owner is free to resell the Units received by him, unless he is an "affiliate" of the Partnership.

Each Owner (including affiliates of the General Partner if they exchange Property Interests) will agree in his Letter of Acceptance that he will not, prior to six months from the Exchange Date, without the prior written consent of the General Partner, sell, transfer or otherwise dispose of Units in excess of the greater of (i) 10% of the Units received in the Exchange Offer or (ii) Units representing $100,000 of fair market value; provided however, that any Owner may sell Units in excess of the above restriction through a registered offering. See "Plan of Distribution."

In the case of an Owner which is a corporation or partnership which subsequently distributes to its stockholders or partners the Units issued to it, the sale of such Units by such Owner or partner who is an officer, director or other "affiliate" of such Owner may be restricted under federal securities laws if such exchange by the Owner was made pursuant to a vote or consent of its security holders.

Sale of certain Units which are issued to the General Partner outside of the Exchange Offer (constituting 4.2% of the aggregate number of Units to be outstanding following the Exchange Offer) will be restricted and will become available for resale following consummation of this Exchange Offer as follows: up to 50% in the first year, 67% in the second year and 75% in the third year (2.1%, 2.8% and 3.15%, respectively, of the aggregate number of Units to be outstanding following the Exchange Offer). In addition, the General Partner and its affiliates will not be permitted to exchange such Units in the Debenture Exchange Offer. These agreements do not extend to any Units which may be received by the General Partner and its affiliates in exchange for Property Interests tendered in the Exchange Offer or subsequently purchased in the open market.

Ownership of Units by Nonresident Aliens, Foreign Businesses and Foreign Governments is restricted. See "The Depositary Units."

Tax Consequences

Although the Partnership is not a tax-shelter, tax consequences are important to the overall decision to participate in the Exchange. EACH OWNER MUST EVALUATE THE MERITS OF THE EXCHANGE OFFER IN THE CONTEXT OF SUCH OWNER'S PERSONAL FINANCIAL AND TAX POSITION AND, IN THIS REGARD, IS URGED TO CONSULT WITH HIS OWN BUSINESS AND TAX ADVISORS. See "Certain Federal Income Tax Consequences."

Distributions Less Than Cash Flow

The Partnership may make distributions, but the amount of distributions made in any year with respect to the Units issued in exchange for a Property Interest may be significantly less than the cash flow from such Property Interest.

Although the General Partner has adopted a policy that cash distributions will initially be made to the fullest extent not otherwise needed (in the sole opinion of the General Partner) for operations and debt service and in any event in an amount of not less than 50% of the net taxable income (less credits) to the holders of the Units, there can be no assurance as to the amount, if any, which may be available at any time. In addition, the Partnership reserves the right at the sole discretion of the General Partner, to change the distribution policy at any time. The General Partner presently intends to reinvest a portion of its internally generated cash flow in the improvement of the Agricultural Properties acquired pursuant to the Exchange Offer, the reduction of debt and, perhaps, from time to time the pursuit of other acquisitions or the repurchase of Units. See "Summary - Selected Pro Forma Information," "Distributions," "Capitalization" and Table II.

It is not possible to predict the impact which the payment of interest on the Debentures to be issued in the Debenture Exchange Offer, particularly if such Offer is fully subscribed, will have on its ability to make distributions. Distributions may be limited under certain circumstances by the provisions of the Indenture pursuant to which the Debentures will be issued. See "Agreement to Exchange Debentures for Units."

Risks of Ownership of Farmland and Agricultural Properties

Although the anticipated diverse size, type and location of its Agricultural Properties should reduce the risks attendant to the ownership of any single property, the Partnership will nevertheless be subject to the risks generally inherent in farming, such as severe or prolonged periods of high or low temperatures, windstorms, hail, drought, excessive rainfall and other weather conditions, demand, government policies and prices, which in turn may be adversely affected by general and local economic conditions, changing economic, social or cultural conditions, the supply of and demand for grains and other agricultural commodities, health and safety laws, unavailability of labor, real property tax rates and other factors. Certain expenditures associated with the ownership of farms, such as debt service, insurance, real estate taxes, maintenance costs and management fees, may be subject to inflationary increases not matched by increased revenues and will not necessarily be decreased by events which adversely affect the Partnership's income. In such event the cost of owning and maintaining the Agricultural Properties and other Property Interests could exceed the revenues derived therefrom.

Although the General Partner intends to minimize the amount of debt secured by the properties acquired in the Exchange Offer, the Partnership may accept properties which are subject to mortgage and other indebtedness and which therefore entail a higher degree of risk than debt-free properties.

The Partnership expects to arrange for comprehensive insurance, including title, liability, fire and extended coverage, which is customarily obtained for Agricultural Properties. However, there are certain types of events (generally of a catastrophic nature, such as earthquakes, floods and wars) which are either uninsurable or not economically insurable. The occurrence of an event not fully covered by insurance could have a material adverse effect on the Partnership's financial position and operations.

Governmental Programs

Because of the nature of its organization and operation and the potential size of its land holdings, the Partnership and Operating Companies may not be able to participate in certain governmental support programs or their participation may be limited. See "Business -- General" and "-- Competition and Regulation."

Purchases and Sales of Futures Contracts

CFF Management Corporation, on behalf of the Partnership or Operating Companies may engage in the purchasing and selling of "futures contracts" regarding certain crops in an effort to hedge against subsequent increases and decreases in the market price for such crops. A "futures contract" is a binding commitment for the purchase and sale of a stated quantity and quality of a commodity, at a price agreed upon when the contract is made, with the delivery of such commodity to occur during the specified future delivery month. Such futures contracts may obligate the Partnership or Operating Companies to deliver or take delivery of the subject commodities at a stated price upon a future date in order to establish the price for such commodities prior to the planting, growing or harvesting thereof to protect against price increases or decreases. To the extent that they are unable, for any reason, to deliver or take delivery in accordance with the terms of the Contract, they may become obligated to pay damages in an amount equal to the difference between the contract price and the current market price.

Partnership Management

The General Partner will have the sole authority to bind the Partnership and to carry on the business and affairs of the Partnership. The General Partner intends to enter into a Management Agreement with CFF Management Corporation to manage the day-to-day business operations and with The Professionals, Inc. to provide certain administrative and investment advisory services. In the event properties are transferred to the Operating Companies, similar agreements will be entered into by the Operating Companies. Each of CFF Management Corporation and The Professionals, Inc. is an affiliate of the General Partner. See "Management," "The General Partner," "Potential Conflict of Interests" and "The Partnership."

Potential Conflicts of Interest

Certain officers, directors, stockholders and partners of firms providing services to the Partnership may also be affiliates of the General Partner. While each of these persons has fiduciary obligations to act in the best interests of the Partnership, they have similar obligations with respect to the other firms of which they are members or representatives. Consequently, conflicts of interest may confront the persons occupying such dual capacities.

In addition, conflicts may arise because certain affiliates of the General Partner are and expect to continue to be engaged in the business of owning, operating and managing Agricultural Properties which may be in competition with the operation and sale of the Agricultural Properties owned by the Partnership. Also, certain affiliates of the General Partner are real estate brokers engaged primarily in handling the purchase and sale of farm properties. See "The General Partner" and "Potential Conflicts of Interest."

The Partnership will establish a Conflicts Committee of its Advisory Board to review any transactions between the General Partner or its affiliates and the Partnership, and any transactions affecting the Partnership in which the General Partner or its affiliates have an interest in order to insure that such transactions are in the best interests of the Partnership. Members of the Conflicts Committee will be members of the Advisory Board unaffiliated with the General Partner. The General Partner has agreed to abide by the decisions of the Conflicts Committee in such matters. See "Management."

Operating Arrangements

It is the General Partner's expectation that some of the Agricultural Properties which the Partnership acquires will be subject to leases or other operating arrangements, many of which may materially contribute to the success of the Agricultural Properties subject to such arrangements, or will be currently operated by the Owners exchanging such Property Interests. Accordingly, the General Partner expects that many, if not most, of the existing operating arrangements will be retained, even if it may be terminating others. No assurance can be given that the Operating Company will be able to maintain such arrangements. See "Business - Operating Arrangements."

Access to Capital Markets

While the General Partner anticipates utilizing, as it deems appropriate, the capital markets for financing the operations of the Partnership, there can be no assurance that the General Partner will be successful in arranging for such future financing if needed. Except for the Debenture Exchange Offer, there currently are no agreements, arrangements or understandings with respect to any such future financings. See "Business - Investment Policies."

Assumed Liabilities

The Partnership may become liable for liabilities associated with Agricultural Properties it acquires in the Exchange Offer and the liabilities of other entities, if it acquires interests in them. Such liabilities may include various contingent or undisclosed liabilities. To the extent such liabilities are known, they will be considered in the Valuation Report and by the General Partner in determining Exchange Values. See "Determination of Exchange Values."

Confidential Information

In connection with the determination of Exchange Values, Owners will be providing, or permitting the General Partner, its agents and representatives to obtain, substantial amounts of confidential information regarding the Property Interests, including tax returns, financial statements, operating results, agreements and similar information. Although the General Partner will use the same procedures to maintain the confidentiality of such information as it uses to maintain the confidentiality of its own records, it is possible that such information could become available to the Owners' competitors or other parties.

Leveraged Capital Structure

To the extent that holders of Units exchange Units for Debentures in the Debenture Exchange Offer, the Partnership will have a more leveraged capital structure than would otherwise have been the case. See "Pro Forma Financial Statements." In addition, the Partnership will have greater fixed debt obligations of interest and principal that it will have to meet prior to any distributions to its Partners and Unitholders.

Market for and Value of Debentures

There can be no assurance that there will be a market for the Debentures. Depending upon prevailing market conditions at the time the Debentures are issued, they may trade at a price which could be less than the face amount thereof. Under current market conditions, the General Partner anticipates that the Debentures would trade at a significant discount from their face amount as a result of their 9% interest rate. The market for the Debentures could be affected if only a limited amount of Debentures were issued in the Debenture Exchange Offer. See "Debenture Exchange Offer."

THE EXCHANGE OFFER

General

The General Partner hereby offers, upon the terms and the conditions stated herein and in the Letter of Acceptance, to exchange Units representing Partnership Interests for Property Interests.

The Property Interests with respect to which the Partnership received executed Letters of Acceptance and their respective Exchange Values are listed in Tables I and II hereto.

The offer to exchange Units representing Partnership Interests for Property Interests is made on the basis of the Exchange Values. See "Determination of Exchange Values." The Exchange Value of each tendered Property Interest will be based upon (i) the market value appraisal of the particular Property Interest to be set forth in the Appraisal Reports, (ii) valuation information, if any, submitted by the Owner, (iii) the General Partner's detailed analysis of the Property Interest, and (iv) where appropriate, negotiations between the General Partner and the Owner. In no instance will the Exchange Value of a Property Interest exceed the value set forth in the Appraisal Reports, a summary of which is included in Exhibit A.

There are no minimum or maximum (except as limited by the value set forth in the Appraisal Reports as set forth above) Exchange Values for any specific Property Interest which may be accepted by the Partnership in the Exchange Offer nor is there a maximum limit on the aggregate Exchange Value of all Property Interests so exchanged or the number of Agricultural Properties to be accepted by the Partnership.

The Partnership is seeking, to the maximum extent possible, to acquire income-producing Agricultural Properties which are debt-free or subject only to mortgages which are also acquired by the Partnership in the Exchange Offer. However, the Partnership also expects to acquire Agricultural Properties which will remain subject to mortgage or similar indebtedness if the payment schedule of such indebtedness, together with other expenses, do not result in a negative cash flow. Upon consummation of the Exchange Offer, certain of the properties exchanged may be encumbered to secure loans which may be used to provide working capital and to pay for certain closing costs. See "Business - Investment Policies."

The Partnership expects that some of the Agricultural Properties to be exchanged may include appurtenances such as houses, storage facilities, nontillable land, lakes and similar structures or features.

The Partnership will also consider, in addition to acquiring Direct Interests in Agricultural Properties, the acquisition of Farm Products, Mineral Interests, Mortgage Interests and Indirect Interests.

Conditions of the Exchange Offer

The Exchange Offer is based upon the following requirements, which are nonwaivable conditions of the Exchange Offer.

Minimum Acceptance. The Exchange Offer will not be consummated unless Property Interests constituting at least 10 different Property Interests having an aggregate Exchange Value of at least $25,000,000 and including Agricultural Properties having no less than an aggregate of 15,000 acres shall have been tendered to and accepted by the Partnership on the Exchange Date pursuant to the Exchange Offer. A higher minimum may be set in the Final Prospectus.

Tax Opinion. The Exchange Offer will not be consummated unless the Partnership receives an opinion of tax counsel that the Exchange Offer qualifies as a transaction described in Section 721(a) of the Code and consequently that, subject to certain exceptions relating to Mortgage Interests, no gain or loss will be recognized to the Partnership or to any of its Limited Partners in the case of a contribution of property to the Partnership in exchange for an interest in the Partnership. See "Certain Federal Income Tax Consequences - The Exchange Offer."

The Exchange Offer is subject to certain other conditions which may be waived by the General Partner. See "Exchange Offer Procedures -- Closing Conditions."

THE DEPOSITARY UNITS

When issued, the Units represent units of limited partnership interest in the Partnership deposited with

, as depositary ("Depositary"), pursuant to a depositary agreement ("Depositary Agreement"). The Units are issued in registered form only. There are certain restrictions on the transferability of Units and on the transfer of Units to certain purchasers. See "Factors to be Considered - Resale of Units."

Although the Partnership intends to apply prior to the Exchange Date for listing of the Depositary Receipts on NASDAQ, there is no certainty that the NASDAQ listing will be obtained. If the Depositary Receipts are not listed on NASDAQ, they will be traded in the over the counter market. At such time as there are a sufficient number of holders of Depositary Units, the Partnership expects to make application to list the Depositary Receipts for trading on a stock exchange. See "Factors to be Considered -- Market for and Value of Units" and "Plan of Distribution."

Under the Partnership Agreement, all Partnership Interests in the Partnership are deposited with the Depositary upon issuance on behalf of and for the benefit of the partners of the Partnership. The Depositary then issues depositary receipts, which evidence ownership of Units, to such partners. Unitholders who are Limited Partners and Assignees of Limited Partners who execute and properly submit a request to be admitted as a substituted Limited Partner and a power of attorney may at any time tender their Units to the Depositary and withdraw the underlying Partnership Interests, which are nontransferable except by death or operation of law. The Depositary is serving as the agent and depositary for the various parties to the Depositary Agreement, and its sole duties are the essentially ministerial ones set forth in that Agreement. The Depositary also acts as transfer agent and registrar for the Units.

The percentage interest in the Partnership represented by a Unit is equal to the ratio it bears to the total number of Units (and undeposited Partnership Interests) outstanding. Unitholders are entitled to receive distributions from the Partnership when, as, and if determined by the General Partner. Each Unit evidences entitlement to a percentage of the Partnership's income, gains, losses, deductions, credits, and distributions. In general, each Unitholder is entitled to a percentage of such items equal to his percentage interest in the Partnership. See "Certain Federal Income Tax Consequences -- Partnership Operations."

Each record holder of a Depositary Unit will, for purposes of the Illinois Uniform Limited Partnership Act, initially be an assignee (an "Assignee") with respect to the interests in the Partnership represented by such Units. Each such Assignee (other than a Nonresident Alien, Foreign Business or Foreign Corporation, each as defined in the Partnership Agreement, who or which is not an Owner), may become a substituted Limited Partner (and thereby be entitled to all of the rights of a Limited Partner, including the rights to inspect the Partnership books and to vote on Partnership matters) upon (i) the execution and delivery of a Reconfirmation Form or other request to become a substituted Limited Partner, together with a power of attorney in favor of the General Partner, and (ii) the filing of an amended Certificate of Limited Partnership evidencing the admission of such person as a substituted Limited Partner. Each record holder of a Depositary Unit (whether an Assignee or Limited Partner) during any calendar month will be allocated a pro rata share of the Partnership's profits and losses for the month then ended based upon days of ownership, regardless of whether such holder receives any cash distributions from the Partnership. Each record holder of a Depositary Unit (whether an Assignee or Limited Partner) as of the applicable record date will be entitled to receive an allocable share of any cash distributions made by the Partnership. The Partnership Agreement provides that the aggregate interest in the Partnership held by or for the account of Nonresident Aliens, Foreign Businesses or Foreign Governments may not be greater than 50%. This provision facilitates compliance with land ownership laws of certain states. In order to implement this provision, a Unitholder transferring Units will have to certify on the reverse of the Depositary Receipt or on a separate affidavit whether the transferee of the Units is a Nonresident Alien, Foreign Business or Foreign Government or an agent, trustee of fiduciary of such a person or entity and the transfer agent will be instructed not to transfer any Units until it has received such certification. The certification will be sufficient to permit the transfer of the Units in the event that the transferee is not a Nonresident Alien, Foreign Business or Foreign Government or an agent, trustee or fiduciary of such a person or entity. If the transferee is a Nonresident Alien, Foreign Business or Foreign Government or an agent, trustee or fiduciary of such a person or entity and the transfer would result in a violation of the Partnership Agreement provision, the transfer agent would not make the transfer and would notify the Partnership and the transferor. Further, if it is determined at any time that a transfer has resulted in ownership of more than 50% of the interests in the Partnership by Nonresident Aliens, Foreign Businesses and Foreign Governments and agents, trustees and fiduciaries of such persons and entities, the holder of the Units which resulted in the violation of the Partnership Agreement provision shall not be entitled to vote, to receive distributions or have any other rights with respect to such Units, except the right to transfer those Units to other than a Nonresident Alien, Foreign Business or Foreign Government.

"Nonresident Alien" means an individual who is not a citizen of the United States and who has not been classified as a permanent resident alien by the United States Immigration and Naturalization Service.

The laws of states where the Partnership owns property or conducts business may also result in other restrictions on ownership of Units and the Partnership Agreement authorizes the General Partner to take actions necessary or appropriate to comply with any such laws, including the enforcement of restrictions on the transfer of Units.

Because a transfer of Units may have an impact on the Partnership for tax purposes, no transfer of Units will be effected unless the transsferor certifies as to the identity of the transferee and the economic details of the transaction on the reverse of the Depositary Receipt or on a separate affidavit.

The Limited Partners (not Assignees) will have the right to vote with respect to certain matters. See "The Partnership - Rights of Limited Partners." Each Limited Partner will have one vote for each Unit held.

The Units are not subject to assessments for additional capital contributions.

The liability of Unitholders for debts of the Partnership is generally limited to the amount of their capital contributions. Maintenance of this limited liability requires compliance with legal requirements in jurisdictions in which the Partnership conducts business. In some jurisdictions, these legal requirements are not clearly established. The Partnership will endeavor to operate in the manner that the General Partner deems appropriate to preserve the limited liability of Unitholders. In addition, Unitholders should be aware that in addition to their capital contributions, they may be liable for the return, with interest, of any cash distributions made to them that reduce their investment in the Partnership below the level reflected in the Partnership's certificate of limited partnership and, in the event of involuntary liquidation because of insolvency, they may be required to forfeit any undistributed profits to pay the Partnership's debts.

The Partnership can be dissolved by the vote of the General Partner and the holders of more than 80% of the Units held by Limited Partners of record, by operation of law, by the removal, resignation, liquidation or insolvency of the General Partner, the sale of all of the Partnership's assets or by the bankruptcy or insolvency of the Partnership. Upon dissolution, the General Partner or other person authorized to wind up the affairs of the Partnership will liquidate the Partnership's assets and apply the proceeds of the liquidation in the order of priority set forth in the Partnership Agreement. See "The Partnership -- Summary of Limited Partnership Agreement -- Dissolution."

The Partnership Agreement may not be amended to make changes which adversely affect the rights of the Limited Partners without a vote of the Limited Partners. See "The Partnership -- Summary of Limited Partnership Agreement -- Amendment of Limited Partnership Agreement."

DESCRIPTION OF PROPERTY INTERESTS

Tables I and II hereto list the Property Interests which are the subject of the Exchange Offer. These Tables show:

(a) the Exchange Value of each Property Interest;

(b) information with regard to the size and location of the respective Agricultural Properties;

(c) information with respect to the operations of the Agricultural Properties; and

(d) information with respect to mortgages and other indebtedness encumbering the Agricultural Properties.

The Exchange Values set forth in Table I establish a value for each of the Property Interests relative to each of the other Property Interests. See "Determination of Exchange Values." To determine the number of Units to be offered for each Property Interest, the aggregate number of Units to be issued in the Exchange Offer (900,000 Units, subject to adjustment) must be divided by a fraction the numerator of which is the Exchange Value of the specific Property Interest and the denominator of which is the aggregate Exchange Value of all of the Property Interests exchanged. The Exchange Value does not necessarily represent the market value of the Property Interest, nor should the Exchange Value be taken to necessarily represent the amount which could be realized through the sale of the Units representing the Partnership Interest issued in exchange for the Property Interest. See "Factors to be Considered -- Market for and Value of Units."

DETERMINATION OF EXCHANGE VALUES

General

An Exchange Value for each Property Interest will be determined by the General Partner to establish the corresponding number of Units to be issued in exchange for such Property Interest. Following receipt of a Valuation Request and Good Faith Deposit, the General Partner will conduct a preliminary review of the Property Interest and, if it initially determines that the Property Interest may be acceptable for exchange, will request from the Owner additional detailed information. See "Exchange Offer Procedures." The Property Interest will then be subject to the valuation procedures described below, including a detailed review by the General Partner and a market value appraisal conducted by an independent appraisal firm selected by the General Partner and made in accordance with acceptable, professional appraisal standards. The General Partner may, where appropriate, enter into direct negotiations with the Owner to arrive at an Exchange Value of the Property Interest. In no instance will the Exchange Value of a Property Interest exceed the value set forth in the Appraisal Report.

The General Partner believes that the Exchange Values of all Property Interests accepted for exchange will be fair and reasonable since the Exchange Value of each Property Interest will be determined by the same process and by the same criteria. In each case, however, the determination will ultimately be the General Partner's and will involve subjective judgments as to certain elements of value. Accordingly, persons other than those evaluating the Property Interests involved in the Exchange Offer may have different opinions as to the Exchange Values of specific Property Interests, the aggregate Exchange Value of all the Property Interests and, thus, the number of Units representing Partnership Interests to be issued in the Exchange Offer for each Property Interest. Due to the diversity of the Property Interests and the subjective nature of valuations of Property Interests, there can be no assurance that the Exchange Value of each Property Interest will equal its actual fair market value or that the Exchange Values of all Property Interests will be comparable to one another. See "Factors to be Considered -- Exchange Values."

Valuation Procedure

The valuation procedure will generally include the following:

(a) inspection of the Agricultural Property by representatives of the General Partner;

(b) analysis by Peat Marwick, independent certified public accountants, of the Appraisal Reports as well as the historical cost, income and applicable expenses of the Agricultural Property, together with available tax and supporting documentation, as and to the extent requested by the General Partner;

(c) analysis by the representatives of the General Partner of the Agricultural Property, its cash flow, soil conditions, the farm market and other relevant information, including the provisions of leases, management agreements and mortgages and other indebtedness;

(d) market value appraisal of the Agricultural Property completed by the Independent Appraisal Firm in accordance with acceptable, professional appraisal standards;

(e) analysis by Peat Marwick of the determination by the General Partner of the Exchange Value of the specific Property Interest in accordance with the Valuation Criteria;

(f) analysis by the General Partner of any other report including any valuation acceptable to the General Partner submitted by an Owner;

(g) internal review by the General Partner's staff, members of the Advisory Board and others;

(h) direct negotiation with the Owner, where appropriate; and

(i) final determination of Exchange Value by the General Partner and approval by the Partnership's Advisory Board.

Appraisal Reports

The Appraisal Reports will be fully documented narrative market value appraisals made in accordance with the Standards of Professional Practice and Standards of Ethics of the American Institute of Real Estate Appraisers, the Society of Real Estate Appraisers, the American Society of Farm Managers and Rural Appraisers and the American Society of Appraisers. Each Appraisal Report will contain all of the necessary and required documentation to support an opinion of market value. The market value appraisals will be based upon the property being held under fee simple title, free and clear of all liens and encumbrances. The Appraisal Reports will include the definition of market value; the results of a physical inspection of each property; a detailed analysis of each property's physical, local and economic attributes; an analysis of current market conditions as of the date of the valuation, including a list of all pertinent and comparable market data; and the valuation theory and analysis; and, where appropriate, will utilize the three standard approaches to value-the cost, income and direct comparison approaches.

The cost approach in appraisal analysis is based upon the proposition that the informed purchaser would pay no more than the cost of producing a substitute property with the same utility as the subject property. It is particularly applicable when the property being appraised involves relatively new improvements which represent the highest and best use of the land or when relatively unique or specialized improvements are located on the site and for which there exists no comparable properties on the market.

The income approach in appraisal analysis converts anticipated benefits (dollar or amenities) to be derived from the ownership of property into a value estimate. The income approach is widely applied in appraising income producing properties. Anticipated future income and/or reversions are discounted to a present worth figure through the capitalization process.

The direct commparison approach in appraisal analysis is based upon the proposition that an informed purchaser would pay no more for a property than the cost of acquiring an existing property with the same utility. This approach is applicable when an active market provides sufficient quantities of reliable data which can be verified from authoritative sources. The direct comparison approach is relatively unreliable in an inactive market or in estimating the value of property for which no real comparable sales data are available. It is also questionable when sales data cannot be verified with principals to the transaction.

In essence all three approaches to value (particularly when the purpose of the appraisals is to establish market value) are market data approaches since the data inputs are market derived.

Set forth in Exhibit A is a summary of such market value estimates.

Agricultural Properties

The valuation process is an attempt to investigate and analyze systematically the land and the improvements thereon, the surrounding community and other relevant factual information, including the market value estimate of the land and improvements, principal amount and provisions of mortgages, if any, encumbering the property, its cash flow and appreciation potential, the demand for, availability of and market for agricultural commodities and, if such information is available, the proposed operating arrangements. The valuation process is subjective in nature and relies heavily on the analyst's interpretation of the market. Valuations will be prepared in accordance with valuation techniques generally accepted and utilized for income-producing real estate properties in general and Agricultural Properties in particular.

Mortgage Interests

The valuation of Mortgage Interests involves a procedure similar to the valuation of bonds. The terms of each applicable mortgage, including participation rights, will be reviewed and a present economic value for the Mortgage Interest will be estimated accordingly.

Indirect Interests

In cases where the Partnership proposes to acquire Property Interests in partnerships, corporations, trusts or other entities substantially all the assets of which consist of Agricultural Properties, the Valuation Report will address the value of the Agricultural Properties owned by such entities as set forth above under "Agricultural Properties." The Exchange Value for the Indirect Interests proposed to be acquired in such entity will bear the same relationship to the valuation of the underlying Agricultural Properties (after taking into account the Partnership's estimate of the net fair value of the assets or liabilities of such entity) as the proportionate interest sought by the Partnership bears to the entire ownership interests in such entity.

Buildings, Equipment, Inventory, Farm Products and Adjustments

The value of any usable, rentable or salable buildings, equipment (if included), crops and other Farm Products as listed by the Owner and conformed by the Appraisal shall be included in determing the Exchange Value. If necessary such value will be adjusted when the General Partner has confirmed the inventory after the Exchange Date. Wherever feasible, other items which are normally considered as adjustments and are readily ascertainable as to amount will be considered in determining Exchange Values. See "Exchange Offer Procedures" and "Closing Procedures — Closing Adjustments."

Information Sources

The information necessary to assess the Property Interests, to appraise the Agricultural Properties, to value the Property Interests, and to determine the Exchange Values, will be provided in the first instance by the Owners.

Representatives of the General Partner, including the appraisers, will make field inspections of all the Agricultural Properties which are the subject of the Exchange Offer. In addition, the General Partner will receive financial and tax information with respect to each Agricultural Property which is subject of the Exchange Offer. The General Partner will also cause title searches to be made of, and will receive title insurance or title opinions and abstracts for, each Agricultural Property accepted for exchange. The General Partner has implemented procedures designed to verify the information on which the Exchange Values will be based (including analysis of financial information relating to certain Agricultural Properties, and will, to the extent reasonably possible, verify all information which it considers material. However, the nature and volume of the data expected to be received by the General Partner will preclude verification of all information received. ACCORDINGLY, THE GENERAL PARTNER CAN GIVE NO ASSURANCE AS TO THE ACCURACY OF SUCH INFORMATION OR, TO THAT EXTENT, OF THE EXCHANGE VALUES BASED THEREON.

Letters of Acceptance

When the Exchange Value of a Property Interest has been determined as described above, the General Partner will issue to the Owner thereof a Letter of Acceptance setting forth the Exchange Value of the Property Interest and the corresponding number of Units representing Partnership Interests to be issued therefor (determined by dividing 900,000 Units [subject to adjustment], the total number of Units to be issued in the Exchange Offer, by a fraction the numerator of which is the Exchange Value of a particular Property Interest and the denominator of which is the aggregate Exchange Value of all Property Interests to be exchanged).

Owners wishing to have their Property Interests included in the Exchange Offer upon the terms and conditions set forth in the Letter of Acceptance presented to them by the General Partner must execute and deliver the Letter of Acceptance to the Partnership before the Acceptance Date and comply with the other procedures set forth below under the caption "Exchange Offer Procedures — Letters of Acceptance."

EXCHANGE OFFER PROCEDURES

Valuation Requests

A Valuation Request is included at the end of this Prospectus. Owners who may wish to have their Property Interests considered for the Exchange Offer should complete the Valuation Request and forward it and the Good Faith Deposit to Consolidated Family Farms, c/o the General Partner at the address on page 3 of this Prospectus. The execution of a Valuation Request will authorize the General Partner and the Partnership, and each of their respective agents, to verify all information furnished therein and to obtain from other sources additional information regarding the Property Interest to which it relates.

SUBMISSION OF A VALUATION REQUEST WILL NOT CONSTITUTE AN OFFER ON THE PART OF THE OWNER OR OTHERWISE OBLIGATE HIM TO PROCEED FURTHER WITH THE EXCHANGE OFFER. CONVERSELY, RECEIPT OF A VALUATION REQUEST WILL NOT OBLIGATE THE PARTNERSHIP TO ACCEPT THE PROPERTY INTERESTS COVERED THEREBY.

Valuation Requests must be submitted to the Partnership prior to 5:00 P.M., Chicago time, on July 31, 1984.

Assistance in completing the Valuation Request can be obtained by telephoning: (312) 661-7000.

Preliminary Review

Following receipt of a Valuation Request, the General Partner will undertake a preliminary review on the basis of the information included therein. In this regard, it is important that Owners furnish to the General Partner all the information called for in the Valuation Request.

Additional Information

If, after such review, the General Parter believes that a Property Interest may be suitable for inclusion in the Exchange Offer, the Owner will be notified by the General Partner and asked to confirm his willingness to proceed. At that time, the Owner of a Property Interest will be requested to submit to the General Partner the following detailed information:

(a) A complete legal description and survey (if available or if requested) of the Agricultural Property, together with a full description of its facilities;

(b) A description as to the nature of the Property Interest and, if an Indirect Interest, the name of all persons or entities holding similar interests;

(c) A copy of the most recent title insurance policy, abstract, or other satisfactory evidence of ownership;

(d) Copies of all leases, both current and proposed, and easements affecting the Agricultural Property;

(e) Copies of all loan, mortgage, indebtedness, and financing documents, both current and proposed, affecting the Agricultural Property;

(f) Copies of all management and other agreements, both current and proposed, affecting the Agricultural Property;

(g) Description of all buildings and other facilities for the Agricultural Property;

(h) Balance sheets, income and expense statements and statements of changes in financial position, including reports thereon by auditors, if any, for the prior three years pertaining to the Agricultural Property and the most recent unaudited financial statements;

(i) Federal income tax information (which should include copies of federal income tax returns or extracts therefrom) for the prior three years relating to the Agricultural Property;

(j) An inventory of equipment included in the exchange with the Agricultural Property to which it relates, for the Agricultural Property, and an estimate of the amount of normal working capital necessary for the property operations;

(k) Copies of all invoices for property taxes, assessments or similar levies affecting the Agricultural Property for the current and prior year;

(l) Copies of all permits and licenses relating to Agricultural Property;

(m) Copies of all appraisals, if any, relating to the Agricultural Property;

(n) Soil, production and corn base information, as compiled and/or published by U.S. Department of Agriculture, Soil Conservation Services and ASCS for all Agricultural Properties;

(o) Crop production information for the past three years, together with a statement as to the method and prices of the marketing or storage;

(p) Aerial photographs and typographical information, if available, for all Agricultural Properties; and

(q) Such other documents, financial statements and information as the General Partner may request.

The Owner of a Mortgage Interest or Mineral Interest will be requested to submit copies of the documents governing the Mortgage Interest or Mineral Interest and such other documents and information as the General Partner may request.

Good Faith Deposit

At the time an Owner submits a Valuation Request, he is also required to deliver to the Partnership the Good Faith Deposit (which will be held in escrow by the Escrow Agent) in the form of a check payable to Harris Trust and Savings Bank, as Escrow Agent. The Good Faith Deposit will be an amount equal to (i) in the case of Owners of Agricultural Properties, $1.00

per acre, but in no event less than $1,000 nor more than $5,000, or (ii) in the case of other Property Interests, such amount as the General Partner shall reasonably request.

The Good Faith Deposit will be returned to the Owner, except under the circumstances described below.

The Good Faith Deposit will be applied to the payment of the fees and expenses of review, appraisal and valuation services by the Independent Appraisal Firm and Peat Marwick and such other out-of-pocket fees and expenses which the General Partner incurred with respect to a Property Interest prior to the Partnership's receipt of the Owner's written notice of withdrawal. To the extent that the amount so deposited exceeds such fees and expenses, the excess will be returned to the Owner in the event the Partnership does not accept the Property Interest. However, the Partnership does not anticipate that there will be any such excess except in cases where the Property Interest is withdrawn in the beginning stages of the review and valuation procedure.

If a Property Interest is exchanged on the Exchange Date, the balance (if any) of the Good Faith Deposit with respect thereto will be returned to the Owner promptly thereafter. See "Closing Procedures -- Delivery of Deeds and Documents," "-- Closing Costs" and "-- Payment of Expenses." However, to the extent that any Owner shall not have paid in full the closing costs and expenses required to be paid by such Owner as set forth in the Letter of Acceptance, the General Partner may require the Escrow Agent to apply the amount deposited by such Owner to the payment of such expenses.

No interest will be paid to Owners or the Partnership in respect of any Good Faith Deposit. Such interest, if any, will be credited to the contribution of the General Partner to the Partnership.

Valuation Procedures

If the additional information provided confirms that the Property Interest may be suitable for inclusion in the Exchange Offer, the General Partner will undertake a detailed review of the Interest (including an independent appraisal and valuation), and the Exchange Value for such Property Interest will then be determined. A copy of the independent market value Appraisal Report will be forwarded to the Owner of the Property Interest to which the report relates whether or not the Property Interest is withdrawn and whether or not the Partnership accepts such Property Interest. See "Determination of Exchange Values."

Letters of Acceptance

Upon the completion of the valuation process, the Partnership will furnish to each Owner of Property Interests which the Partnership wishes to accept for exchange a Letter of Acceptance describing the Property Interests to be tendered by him and setting forth the number of Units representing Partnership Interests offered in exchange therefor and the other terms and conditions applicable to the Exchange Offer. Letters of Acceptance will be prepared after negotiation between the General Partner and the Owner.

Each Letter of Acceptance will provide for and set forth details in respect of the following: (i) the form of deed or assignment and covenants of the Owner to be included therein; (ii) the amount of the title insurance deposit or abstracting deposits required to be delivered therewith (see "Title Insurance and Abstracting Deposit"); (iii) the ancillary documents to be delivered in respect of the tendered Property Interest (see "Closing Procedures -- Delivery of Deeds and Documents"); (iv) the manner in which the Property Interest and the income or cash flow therefrom, the operations thereof and other matters are to be dealt with or managed between submission of the Letter of Acceptance and consummation of the Exchange Offer; (v) the estimated amount of normal operating inventory as included in the determination of the Exchange Value and the items to be adjusted between the Partnership and the Owner (see "Closing Procedures -- Closing Adjustments"); (vi) the obligations of the Partnership and the Owner with respect to the payment of closing costs (see "Closing Procedures -- Closing Costs"); (vii) representations and covenants of the Owner (see "Representations and Covenants"); (viii) remedies of the Partnership relating to misrepresentations or other breaches or defaults by the Owner, including provision for indemnification of the Partnership and the General Partner and the provisions described under "Closing Procedures - Escrow of Units and Title Defects"; and (ix) the conditions to closing (see "Closing Procedures -- Closing Conditions"). The foregoing is not all-inclusive, and each Owner should carefully review the Letter of Acceptance presented to him and should seek such legal counsel or other advice in respect thereof as he may consider appropriate. In the Letter of Acceptance, the Partnership will commit to make the Debenture Exchange Offer.

An Owner may have his Property Interest included in the Exchange Offer by properly executing the Letter of Acceptance and delivering it to the General Partner, together with the required title insurance or abstracting deposit, in the form of a check payable to Harris Trust & Savings Bank, as Escrow Agent, before or on the Acceptance Date. All signatures of an Owner on a Letter of Acceptance must be in the form specified therein.

Representations and Covenants

Each Letter of Acceptance will include representations and warranties relating to title, finders, brokers and (except in the case of Mortgage Interests) property taxes, leases, mortgages, management and lease agreements, operating and other expenses, the condition and repair of the Agricultural Property, insurance, service contracts, payroll, access, financial statements and other matters customarily deemed pertinent to transactions effecting a sale or exchange of similar Agricultural Properties.

Each tendering Owner will represent in the Letter of Acceptance that he has the right and authority to transfer the Property Interest described therein, that the information with respect thereto previously furnished to the Partnership and to the General Partner is correct, that such Property Interest has not been previously conveyed, that it is free and clear of any liens, claims and encumbrances created by, through or under such Owner or otherwise, other than those referred to in the Letter of Acceptance and taken into account by the Partnership in determining the Exchange Value for such Property Interest, and that he has not made, and will not make prior to the Exchange Date, any commitment (whether legally binding or otherwise) to sell, transfer or otherwise dispose of the Units to be received by him pursuant to the Exchange Offer.

Each Letter of Acceptance will also contain a covenant by the Owner to execute such additional documents and deliver such additional financial statements (including financial statements necessary for preparation of the Partnership's proforma financial statements, if and when available, and tax returns) as may be, in the General Partner's opinion, reasonably needed to transfer the Property Interest to, and vest marketable title to the Interest in the General Partner's and to prepare the Final Prospectus and consummate the Exchange Offer.

Special Requirements for Certain Owners

Some of the Owners tendering Property Interests may be entities, such as corporations, partnerships, trusts or joint ventures. In such cases, the General Partner may require, in addition to requirements applicable to all other Owners, that each Letter of Acceptance be accompanied by evidence satisfactory to the General Partner, which may include an opinion of counsel acceptable to the General Partner, that such entity has met all requirements of its governing instruments, such as its charter, partnership, trust or joint venture agreement, and is authorized to tender the Property Interests pursuant thereto and under the laws of the jurisdiction in which such entity is organized.

To the extent that the Partnership may determine to accept, in lieu of a Direct Interest, interests in a partnership, corporation, trust or joint venture owning an Agricultural Property, the Letter of Acceptance shall contain such additional provisions as may be necessary to ensure the transfer to the Partnership of at least a controlling majority interest in such entity. The precise nature of such provisions will depend in part upon the terms of the governing documents of such entity.

Title Insurance and Abstracting Deposits

The General Partner intends to obtain a blanket title insurance policy covering all real property to be acquired by the Partnership in the Exchange Offer located in states where title insurance is available and to contract for title opinions and abstracting services where title insurance is not available, which it is anticipated will be less expensive than having each Owner obtain title insurance or opinions and abstracts individually. Each Letter of Acceptance (other than those relating to Mortgage Interests) will state the estimated amount of the Owner's share of the cost of obtaining such title insurance policy or opinion and abstracting services. The Owner tendering the Property Interest will be required to deliver to the Partnership, together with his Letter of Acceptance, a check in the specified amount (the "Title Insurance or Abstracting Deposit"), payable to Harris Trust & Savings Bank, Escrow Agent.

If the Exchange Offer is consummated with respect to a Property Interest, the amount so deposited shall be applied to the payment of the Owner's pro rata share of the title insurance fees or of the title opinion and abstracting charges. If the amount so deposited exceeds such Owner's pro rata share as finally determined, the excess shall be returned to the Owner. If the amount so deposited is less than such Owner's pro rata share, the Owner will be required to pay such deficiency as a condition of closing.

If the Property Interest is withdrawn or the Owner fails to execute and deliver a Reconfirmation Form on or before the Reconfirmation Date or if the Exchange Offer is not consummated with respect to such Property Interest by reason of the Owner's failure to meet any of the conditions required to be met by the Owner as set forth in the Letter of Acceptance, the amount so deposited with respect to such Property Interest shall be applied to the fees, if any, of the title company previously incurred with respect to such Property Interest and any other expenses previously incurred by the Partnership in connection with the valuation of such Property Interest. The balance, if any, shall be returned to the Owner; however, the Partnership does not anticipate that there will be any such excess. If the Exchange Offer is not consummated with respect to such Property Interest for any other reason, the amount so deposited shall be returned to the Owner thereof (less any title insurance commitment or title abstracting expense theretofore incurred).

No interest will be paid to the Partnership or the Owners in respect of the funds so deposited. Interest earnings, if any, thereon shall be credited to the General Partner's contribution to the Partnership.

Acceptance Date

All Letters of Acceptance and other required documentation and escrow deposits with respect to title insurance must be received by the Partnership prior to 5:00 P.M., Chicago time, on August 31, 1984, unless extended by the Partnership by notice to the Escrow Agent.

Final Prospectus and Reconfirmation

As soon as practicable after the Acceptance Date, the Partnership will prepare a Final Prospectus setting forth a summary of each Property Interest which is the subject of a fully-executed Letter of Acceptance, including the Exchange Value for each such Property Interest, the aggregate Exchange Value of all such Property Interests, the corresponding number of Units representing Partnership Interests to be delivered in respect thereof and the other information indicated in the Tables hereof. The Final Prospectus will also set forth the Partnership's combined pro forma financial statements and related financial data giving effect to the Exchange Offer. The Final Prospectus will be furnished to each Owner who has executed and delivered a Letter of Acceptance to the Partnership. See "Pro Forma Financial Statements."

After the Final Prospectus is so furnished, each Owner may accept the Exchange Offer by executing and delivering a Reconfirmation Form on or before the Reconfirmation Date (which will be at least 10 days after the Owner receives a Final Prospectus). A Reconfirmation Form will be furnished with the Final Prospectus. Reconfirmations are irrevocable and may not be withdrawn by the Owner.

THE FAILURE OF AN OWNER TO EXECUTE AND DELIVER A RECONFIRMATION FORM ON OR BEFORE THE RECONFIRMATION DATE WILL CONSTITUTE WITHDRAWAL OF THE OWNER'S PROPERTY INTEREST.

Validity of Tenders and Reconfirmations

All questions as to the validity, form, eligibility, time of receipt and acceptance and reconfirmation of Property Interests tendered will be determined by the General Partner, and such determination will be final and binding. The General Partner's interpretation of the terms and conditions of the Exchange Offer will also be final and binding. The General Partner reserves the right to waive any irregularities or conditions of tender or reconfirmation.

Tenders and reconfirmations will be deemed not to have been made until all irregularities have been cured or waived. Any Letter of Acceptance which is not properly completed and executed, or as to which any irregularities are not cured or waived, will be returned to the tendering Owner as soon as practicable. Neither the Partnership, the General Partner, the Real Estate Coordinator, real estate brokers, finders nor any other person is under any duty to give notification of defects in tenders or reconfirmations and will not incur any liability for failure to give such notification.

Rejection and Withdrawal of Property Interests

The General Partner has the right, at any time prior to the delivery of the Final Prospectus, to reject any Property Interest for any reason and refuse to include it in the Exchange Offer. In the event of any such rejection and refusal by the Partnership, the Good Faith Deposit (less any out-of-pocket expenses incurred prior thereto in connection with appraisal or valuation) and any funds deposited in escrow in respect of title insurance and abstracting will be returned to the Owner (except in cases of material misrepresentations or omissions by the Owner or the Owner's failure to provide requested information or documents or to fulfill the conditions set forth in the Letter of Acceptance). See "Good Faith Deposit" and "Title Insurance and Abstracting Deposits."

A Property Interest may be withdrawn by the Owner thereof at any time prior to the execution and delivery of a Reconfirmation Form. Failure of an Owner to execute and deliver a Reconfirmation Form on or before the Reconfirmation Date will constitute a withdrawal of the Owner's Property Interest. Owners who withdraw their Property Interests may lose their right to the return of all or a portion of the Good Faith Deposit and the Title Insurance or Abstracting Deposit. See "Good Faith Deposit" and "Title Insurance and Abstracting Deposits."

CLOSING PROCEDURES

Delivery of Deeds and Documents.

Each tendering Owner will be required to deliver to Chicago Title and Trust Company (the "Exchange Agent"), at such time as is set forth in the Letter of Acceptance, the executed deed or assignment, as appropriate, in recordable form, and all other ancillary documents as may be required pursuant to the Letter of Acceptance. To facilitate the Exchange Offer, each Reconfirmation Form will authorize and direct the Exchange Agent to effect the exchange on the Exchange Date.

As necessary, included among such ancillary documents will be: requisite consents, estoppel certificates (mortgagees', management companies' and operators'), production reports, and assignments of leases, service contracts, escrow deposits held by mortgagees or others and deposits, and other items as set forth in the Letter of Acceptance.

Closing Costs.

All costs and expenses relating to the transfer of a Property Interest to the Partnership (other than fees of the Partnership's counsel and accountants) will be paid by the Owner. Such costs and expenses, which will be itemized in the Letter of Acceptance, include title insurance and abstracting costs, surveys, the fees and expenses of the Owners' accountants and attorneys, prepayment penalties, transfer taxes, documentary stamp taxes and similar items, recording fees and any finders' fees or brokerage commissions other than those which the Partnership or the Real Estate Coordinator has agreed to pay. The Owner will be required to deliver, with his Letter of Acceptance, the required deposit for title insurance or abstracts described above.

Closing Adjustments.

Each Letter of Acceptance, except with respect to Mortgage Interests, will set forth those items which shall be adjusted between the Owner and the Partnership. Generally, such items are of a nature customarily related to the type of Property Interest being transferred and include, without limitation, rent, property taxes, mortgage interest, and other items. Wherever feasible, items normally considered as adjustments which are readily ascertainable as to amount will be considered in determining Exchange Value for the Property Interest and, in such cases, no additional adjustment will be made. Letters of Acceptance with respect to Mortgage Interests will provide for an adjustment only of interest payable, together with any other equity participation to which the holder of such Mortgage Interest may be entitled.

To the extent that the value of then operating inventory or equipment on the Exchange Date is less than the amount included in the Exchange Value with respect thereto, the Owner will be required to make a cash payment to the Partnership as a closing adjustment; to the extent that the value of inventory and equipment on the Exchange Date exceeds such amount, the Partnership will, at its option, adjust in cash, kind or Exchange Value.

Each Letter of Acceptance may provide for a date as of which adjustments will be calculated, which may be the same as the Exchange Date, but will probably be 11:59 P.M. on the date immediately preceding the Exchange Date.

Escrow of Units and Title Defects.

An escrow provision will be established under which 10% of the Units to be delivered in exchange for each Property Interest may be held by the Escrow Agent for 180 days after the Exchange Date for the purpose of providing the Partnership with a fund to secure its rights to payment or reimbursement from the Owner of such tendered Property Interest. The Letters of Acceptance may provide for a greater or lesser percentage or period than set forth above, so that different Owners may have different percentages of Units delivered to them in the Exchange Offer held in escrow for different periods. In addition, a number of Units equal to the estimated value of the operating inventory and equipment divided by per Unit Exchange Value will be escrowed for a short period (not in excess of one month) during which the Partnership will confirm the existence and value of the inventory and equipment conveyed to it.

Among other things, the Letter of Acceptance will provide that, if any Owner is unable to transfer to the Partnership such title as is required by the Letter of Acceptance, insurable at regular rates by a title insurance company selected by the Partnership in States where such insurance is available, the General Partner may either reject or accept such tender, but, if accepted, may require the Owner to cure the title defect or may require the Escrow Agent to sell so many of the escrowed Units allocable to such Property Interest as are required to generate funds sufficient to cure such title defect.

Closing Conditions

The Exchange Offer will not be consummated unless the conditions specified under the heading "The Exchange Offer - Conditions to Consummation of the Exchange Offer" have been fulfilled. These conditions, which may not be waived, relate to the minimum acceptance of at least 10 different Farms, aggregate at least 15,000 acres with an aggregate Exchange Value of at least $25,000,000.

The consummation of the Exchange Offer is also subject to the additional conditions set forth in the following paragraphs, which are for the sole benefit of the Partnership and may be waived by General Partner in its sole discretion, in whole or in part:

1. Consummation of the Exchange Offer with respect to each Property Interest is subject to the receipt by the Partnership, on or before the Exchange Date, as set forth in the Letter of Acceptance, of opinions, certificates, licenses, payments and title as are customary in connection with the acquisition of an agricultural operation.

2. The General Partner has the right at any time on or before the Exchange Date to refuse to consummate, to terminate or to modify the Exchange Offer if, in the sole judgment of the General Partner, a change shall have occurred or been threatened (or any development shall have occurred or been threatened involving a prospective change) which materially adversely affects the Exchange Values of the Property Interests, taken as a whole, or the General Partner shall have become aware of any fact which has or may have material adverse significance with respect to the value to the Partnership of the Property Interests, taken as a whole. The Letter of Acceptance will set forth certain additional conditions, customarily specified in Exchange Offers, relating to war, bank moratoriums, stock exchange suspensions, legislation, litigation and similar matters.

3. If any event shall occur or any matter shall be brought to the attention of the Partnership which, in the sole judgment of the General Partner, materially affects, whether adversely or otherwise,

one or more Property Interests, the General Partner reserves the right to refuse to accept tenders of such Property Interests, to modify or amend the Exchange Offer to take such event or matter into account, to eliminate such Property Interests from the Exchange Offer or to take such other action as may be appropriate. Any determination by the General Partner concerning the events and matters set forth above will be final and binding on all parties.

Exchange Date and Issuance of Units

The Exchange Offer will be consummated on the Exchange Date, at which time, assuming all conditions of the Exchange Offer have been fulfilled or waived, the Partnership will accept for exchange all Property Interests for which duly executed Reconfirmation Forms have been received (except for Property Interests with respect to which all conditions have not been fulfilled or waived) and will deliver to the Exchange Agent certificates evidencing the Units for transmittal to Owners (other than Units to be held in escrow, which shall be delivered to the Escrow Agent). Units will be issued in the name of tendering Owners. No fractional Units will be issued. Instead, the number of Units offered in exchange for Property Interests will be rounded, in the case of each Owner, to the nearest whole number of Units.

If, with respect to any Property Interest, all conditions to the Exchange Offer have not been fulfilled or waived before the Exchange Date or the Exchange Offer is not otherwise consummated, no Units will be issued in exchange for such Property Interest pursuant to the Exchange Offer and all escrowed funds, if any, not expended for valuation or review purposes or for title insurance and abstracting costs, as set forth above, will be returned to the Owner without interest.

Real Estate Commissions and Finders' Fees

The General Partners have entered into a real estate brokerage agreement on behalf of the Partnership with CFF Realtors to act as coordinator (the "Real Estate Coordinator") of the real estate brokers and finders submitting Property Interests to the Partnership. The Real Estate Coordinator is entitled to 3% of the Units to be outstanding following the Exchange Offer. The Real Estate Coordinator may compensate finders who are licensed real estate brokers and who introduce the Partnership to Owners of Property Interests or who perform customary real estate brokerage functions for an Owner or where required by local law. Finders may not perform any functions of securities broker/dealers, including solicitation or participation in the solicitation of Reconfirmation Forms. No Valuation Request will be processed unless it is submitted by the Owner.

The amount of such fees will be set by the Real Estate Coordinator in each case and will not exceed one Unit for each 60 Units issued (subject to adjustment in the Recapitalization) in the Exchange Offer for which the Property Interest for the finder or real estate broker is responsible.

Finders designated by Owners and real estate brokers appointed by the Real Estate Coordinator on behalf of the Partnership will be expected to:

(i) advise Owners as to the value of their Property Interests, the local real estate market and local real estate practice; (ii) assist Owners in gathering the real estate documentation requirement by Letters of Acceptance and in obtaining consents from lenders, lessors, lessees and local authorities to enable Owners to transfer their Property Interests to the Partnership; and (iii) review Owner's Valuation Requests and Letters of Acceptance. Finders designated by Owners and real estate brokers appointed by the Real Estate Coordinator will agree to refrain in all instances from advising Owners as to matters relating to the Units and the trading market therefor, or as to the Partnership, its management and prospects nor will they participate in negotiations between the Partnership and any Owner.

The Real Estate Coordinator will not be obligated to reallow any commissions to any finders or real estate brokers unless and until the finder executes and delivers to the Partnership a Commission Agreement in form and substance satisfactory to the General Partner. The Commission Agreement will provide, among other things, that the finder indemnify the Partnership, the General Partner (and each of its general and limited partners) and the Real Estate Coordinator in certain instances and that the obligation to pay fees is subject to: (i) all applicable federal, state and local laws (including prohibitions by applicable state securities regulators); (ii) the finders' possessing all necessary real estate, brokerage or other licenses required by applicable law in connection with the performance of his services pursuant to the Commission Agreement; and (iii) the consummation (at the General Partner's sole discretion) of the Exchange Offer with respect to such Property Interest.

Payment of Expenses

Whether or not the Exchange Offer is consummated, the General Partner is generally obligated to pay the costs and expenses of the Exchange Offer, including, but not limited to, the fees and expenses to be paid to the Escrow and Exchange Agents, registration and filing fees, printing expenses, legal and accounting expenses, valuation fees and expenses of appraisers and other fees and expenses incurred in the valuation process in excess of the Good Faith Deposits and certain other miscellaneous expenses. The General Partner will be obligated to pay these expenses whether or not the Exchange Offer is consummated. If the Exchange Offer is consummated, the Partnership may incur certain expenses for closing costs. See "Capitalization." The Partnership will not be responsible for transfer taxes, stamp taxes, finders' fees, brokerage commissions and other expenses required to be paid by the Owner or Real Estate Coordinator pursuant to the Letter of Acceptance. The estimated aggregate expenses to be incurred by the Partnership and by the General Partner in connection with the Exchange Offer will be provided in the Final Prospectus.

Local Laws

The Exchange Offer is not being made to, nor will the Partnership accept offers from, Owners in any jurisdiction in which the Exchange Offer or the acceptance thereof would not be in compliance with the securities or other applicable laws of such jurisdiction. In any jurisdiction where the securities or other applicable laws require that the Exchange Offer be made by a licensed broker or dealer, the Exchange Offer will be made on behalf of the Partnership by a soliciting dealer which is appropriately licensed under the laws of such jurisdiction.

Stockholders of certain Owners may have valuation or dissenters' rights in accordance with the procedures, and subject to the conditions, set forth in the applicable laws of such corporation's state of incorporation. Stockholders of such corporations should review the relevant statutes with their personal advisors and consider what appropriate action to take. Failure to comply timely and properly with the procedures specified in such statutes may result in the loss of valuation or dissenter's rights.

CAPITALIZATION

The Partnership

Pursuant to the terms of the Partnership Agreement, the General Partner is obligated to pay all "Costs and Expenses of the Exchange Offer" which include filing fees required by the Securities Act of 1933; filing and examination fees required by any applicable state securities laws or regulations; expenses for printing this prospectus; all expenses incident to the valuation of Property Interests (in excess of those covered by Owners' Good Faith Deposits); legal and accounting fees relating to the structuring of the Exchange Offer (but not those which relate to the organization of the Partnership, the Closing - i.e., transfer of Property Interests - of the Exchange Offer or the setting up of the opening accounts of the Partnership); attorneys' fees for opinions as to the legality of the Partnership and investments therein under applicable state and local laws; fees and expenses of the Exchange Agent and Escrow Agent; and all costs and expenses of office personnel, travel, supplies, telephone and other operating costs of the General Partner prior to the Closing of the Exchange Offer. The Costs and Expenses of the Exchange Offer shall not include any organizational and closing costs, such as: fees and expenses of the Depositary Agent; costs of title insurance or title abstracts; costs of printing and engraving Depositary Receipts; sales and transfer taxes, recording fees; and other costs or expenses normally incident to the closing of a sale of Agricultural Properties or other Property Interests. See "Exchange Offer Procedures - Good Faith Deposit" and "Closing Procedures - Closing Costs."

In return for such commitment and investment, the General Partner will receive a 7% interest in all profits, losses and distributions of the Partnership and the Real Estate Coordinator in exchange for the contribution of $10,000 in cash will receive, as a Limited Partner, an interest in the Partnership equal to 3% of all such profits, losses and distributions. The General Partner's interest will not be transferrable as such, but will be convertible into Units, which will be transferrable to its partners. The Real Estate Coordinator's interest will be evidenced by Units, which will be transferrable to its partners and other real estate brokers and finders. The following table sets forth the pro forma capitalization of the Partnership assuming the exchange of all Property Interests described in the Tables for Units.

Indebtedness (other than current liabilities) (1):	
	$__________
Partners' equity:	
General Partner(s)	
Real Estate Coordinator	$10,000
Owners (3)	
	$______

---

(1) See Table II
(2) See Table I

Recapitalization

Immediately before the Exchange Date, the Partnership may recapitalize the Partnership (i.e., combine or split Partnership Interests into fewer than 1,000,000 Partnership Interests or more than 1,000,000 Partnership Interests) so that the number of Partnership Interests outstanding immediately after completion of the Exchange Offer will be equal to 1,000,000 multiplied by the fraction the numerator of which is the aggregate Exchange Value of all Property Interest Exchanged and the denominator of which is $18,000,000. Thus, the Partnership Interests of the General Partner and the Real Estate Coordinator will continue to constitute 10% of the Partnership Interests outstanding immediately following such recapitalization, out of which the Real Estate Coordinator may reallow to other real estate brokers and finders an aggregate of 15% of such Units (1-1/2% of the total Units outstanding).

The Operating Companies

From time to time, the Partnership may transfer property to one or more limited partnerships formed for the purpose of holding such land and carrying on operations relating thereto. The Partnership shall receive a 99% interest in all such Operating Companies. FMC Management Co., either directly or through one or more limited partnerships of which it will be general partner, shall receive a 1% interest in all such Operating Companies in exchange for the contribution to each of such Operating Companies of cash in the amount equal to 1.0101% of the value of the Property transferred to such Operating Companies. Such contribution may be paid in installments over a period of 5 years.

DILUTION

If the tangible value of the Property Interests to be acquired by the Partnership as a result of the Exchange Offer is assumed to be equal to the value attributed to them for purposes of determining Exchange Values, the net tangible value of the Units held by the General Partner and the Real Estate Coordinator would be increased in an amount to be set forth in the Final Prospectus after deducting the estimated expenses of the Exchange Offer and giving effect to the recapitalization. The result will be the immediate dilution of the newly delivered Units acquired by Owners. "Dilution" per Unit represents the difference between such aggregate Exchange Value attributed to the Units issued to those tendering Property Interests to the Partnership in the Exchange Offer and the adjusted net tangible value after giving effect to the Exchange Offer. The following table illustrates this dilution.

	Dilution Per Unit	
	Assuming 100% Acceptance	Assuming Minimum Acceptance
Per Unit Exchange Value................	$ *	$ *
Net tangible value per Unit after Exchange Offer attributable to Units received by Owners tendering Property Interests in the Exchange Offer	*	*
Per Unit Dilution attributable to Units received by Owners tendering Property Interests in the Exchange Offer......	$ *	$ *

---

* To be provided in the Final Prospectus.

The following table summarizes the difference between the total Units acquired and the consideration paid therefor to the Partnership by the Owners, by the General Partner and by the Real Estate Coordinator.

	Number of Units	Consideration for Units
General Partner		
Real Estate Coordinator	[To be provided in Final Prospectus.]	
Owners		

BUSINESS

General

The Partnership is in the process of formation under the Illinois Uniform Limited Partnership Act for the purpose of effecting the Exchange Offer and currently has no assets, no employees and no operating history. Upon consummation of the Exchange Offer, however, the General Partner anticipates that the Partnership will acquire an extensive portfolio comprised of farms located primarily in the grain producing area of the Central United States. The Partnership may also acquire Farm Products, Mineral Interests, Mortgage Interests and other Indirect Interests incident to the acquisition of the Agricultural Properties.

The Partnership will enter into a Management Agreement with CFF Management Corporation, an affiliate of the General Partner, to facilitate the operation, development and overseeing of its Agricultural Properties and to pursue and implement its objectives. See "Management Arrangements."

The Partnership may engage in selective acquisitions and divestitures of Agricultural Properties from time to time with the purpose of improving its portfolio of farms and Agricultural Properties.

The General Partner believes that the Partnership's expected size will permit it to obtain advantageous financing and to employ a variety of financial techniques not generally available to Owners of individual Agricultural Properties. In addition, the General Partner believes that to the extent that the Partnership can obtain financial and operating and other economies of scale, as well as the benefit of the professional management services it intends to employ, it will be able to operate more efficiently than Owners of individual Agricultural Properties.

Some of the Agricultural Properties may be managed by non-affiliated companies pursuant to management agreements entered into by CFF Management Corporation with the approval of the General Partner. The General Partner will supervise all management activities. The Partnership will retain The Professionals, Inc. to prepare operating and capital budgets, monitor expenditures, make periodic on-site inspections, review and evaluate the performance of the Agricultural Properties and provide other centralized services. In addition, for all of the Partnership's Agricultural Properties where deemed prudent, the General Partner expects to implement capital expenditures and improvements as required, and to create and implement financing and other strategies.

Management Arrangements

The General Partner expects that many of the Agricultural Properties which the Partnership will acquire in the Exchange Offer will at the time of acquisition be under the management of various companies engaged in the business of managing Agricultural Properties pursuant to agreements with the Owners. In many cases, these companies will have the right to continue to manage the Agricultural Properties after the Exchange Date.

Such management agreements typically provide for the management company to be paid a percentage of gross revenues, and many have provisions for additional incentive fees (a percentage of net income or gross operating income). Many of the management agreements may extend for a significant period, and in many cases, the management company may have the right to extend the term of the agreement. Some management agreements may give the management company the right to terminate the agreement after a fixed date or upon sale of the Agricultural Properties subject thereto.

In calculating the Exchange Values, the General Partner will give consideration to the rights of the management companies under the various management agreements which will extend beyond the Exchange Date.

The General Partner expects that, where appropriate, existing management will be continued for the Agricultural Properties. The General Partner anticipates that upon the consummation of the Exchange Offer, certain of the Agricultural Properties will be acquired without an ongoing management agreement, either because the current Owner is managing the Agricultrual Properties and desires no longer to do so, or because the transfer of ownership pursuant to the Exchange Offer will give the present management company a right to cancel the management agreement, or because the Partnership finds the present management unacceptable and has secured the termination of, or the right to terminate, the management agreement. In such cases, the General Partner will generally manage the Agricultural Properties indirectly through CFF Management Corporation which in turn may either manage the Agricultural Properties itself or will select another high quality management company appropriate for such Agricultural Properties. The General Partner anticipates that, to the extent CFF Management Corporation desires to do so, CFF Management Corporation will be readily able to obtain appropriate management companies to manage such Agricultural Properties.

Operating Arrangements

It is the General Partner's expectation that many of the Agricultural Properties which the Partnership acquires will be subject to Operating Agreements, most of which will be cash rent leases but some will be direct and custom farming agreements or crop share leases, or a combination thereof. The General Partner expects that it will want to retain many, if not most, of the existing arrangements even when it may be terminating or changing management companies. In some instances, where the General Partner believes it appropriate with respect to particular Agricultural Properties, the General Partner may seek to change the operator farming the particular farm.

Investment Policies

The General Partner intends continually to evaluate new investment opportunities and the Partnership's then existing portfolio with the purpose of upgrading its holdings through a program of purchases and dispositions so as to optimize return on investment. Purchases of additional properties may be made for cash, in exchange for debt or equity securities of the Partnership or in such other manner as the General Partner may determine. Debt incurred by the Partnership could be secured by mortgages or other interests in the Partnership's assets or could be unsecured.

The General Partner intends to seek out primarily grain producing farms in the grain belt of the Central United States, although there is no limit on the types or locations of Agricultural Properties in which the Partnership may invest.

The Partnership has no policy with respect to the amount or percentage of its assets which may be invested in any specific property or type of property or any particular geographic location, except that its principal emphasis will be on grain producing farms located in the Central United States. The General Partner has no present intention of accepting for the Partnership Mortgage Interests except Mortgage Interests which encumber Agricultural Properties acquired pursuant to the Exchange Offer and which are also acquired pursuant thereto, or other Mortgage Interests encumbering properties subsequently acquired by the Partnership, or Mortgage Interests received in connection with a sale of its properties. The Partnership has no present intention of making investments in securities of entities engaged in any business other than the ownership and/or operation of Agricultural Properties. The Partnership has no policy with respect to the percentage of securities of any one issuer which the Partnership may acquire, except that, to the extent the Partnership may acquire interests in entities pursuant to the Exchange Offer, it will do so only if it acquires a controlling majority of the interests in such entity. The Partnership may acquire properties for the creation of possible capital gain, for the generation of income or for both purposes.

It is not presently expected that the Partnership will issue any additional securities (other than the Debentures), although the Partnership may issue debt or equity securities in connection with future acquisitions, for additional funding needs relating to its properties, to refinance debt on its properties, or for other partnership purposes if it deems such issuance at the time desirable. The Partnership will not be primarily engaged in the business of investing, reinvesting or trading in securities or commodities futures and will not hold itself out to be an "investment company" within the meaning of the Investment Partnership Act of 1940, as amended, or a "commodity trading pool" within the meaning of the Futures Trading Act of 1982.

The investment and other policies described above may be changed by the General Partner without a vote of the Limited Partners.

Competition and Regulation

The business of owning and operating Agricultural Properties is highly competitive. The Partnership will compete with a wide variety of competitors who have business interests similar to the Partnership's, as well as other real estate entities, insurance companies, banks and other financial institutions as well as numerous individuals and syndicates. Many of the Partnership's competitors may have substantially greater assets and financial resources than the Partnership. In addition, because of the nature of the Partnership's structure, size and capitalization, the Partnership may not be eligible to participate in certain governmental programs, which support or benefit farm operations.

The business of owning and operating Agricultural Properties is subject to general economic conditions which may, among other things, affect the availability and cost of money as well as the cost of producing, and the supply of and demand for, agricultural products.

Ownership of Agricultural Properties is subject to local, state and federal regulations and taxation. Included in such regulations are complex provisions under the laws of many states restricting the ownership of real property used in farming. These restrictions generally limit the rights of corporations, trusts, partnerships and foreign persons, businesses and governments to own farmland or to engage in farming operations. Many states as well as the laws of the United States also require detailed reporting of ownership by certain of such persons as well as by partnerships, corporations or trusts owning farmland or engaging in farming operations in which such persons have interests.

AGREEMENT TO EXCHANGE DEBENTURES FOR UNITS

Not earlier than January 1, 1986 nor later than October 31, 1987, the Partnership (or one or more of the Operating Companies) will offer to exchange Debentures for not less than 25% of the Units delivered on the date of the commencement of the Debenture Exchange Offer. Each Owner's Letter of Acceptance will contain this agreement. The Units representing Partnership Interests held by the General Partner and its affiliates (other than Units issued to them in exchange for Property Interests) will not be eligible for exchange. The Debenture Exchange Offer will expire 30 days (or such longer period as may be required by applicable law) after commencement.

Market for and Value of Debentures

There can be no assurance of a market for the Debentures at any time in the future. Depending upon prevailing market conditions at the time the Debentures are issued, they may trade at a price which may be less than the face amount thereof. Under current market conditions, the General Partner anticipates that the Debentures would trade at a significant discount from their face amount as a result of their 9% interest rate. The market for the Debentures could be affected if only a limited amount of Debentures were issued in the Debenture Exchange Offer.

Events Affecting Debenture Exchange Offer

Making of the Debenture Exchange Offer will be subject to the effectiveness of a Registration Statement covering the issuance of the Debentures and may be subject to (i) the filing with the Securities and Exchange Commission on or prior to the commencement of the Debenture Exchange Offer of certain information under the applicable tender offer rules with respect to the Debenture Exchange Offer and (ii) any registration or qualification required under applicable securities laws of any state or other jurisdiction in connection with the issuance of the Debentures; there can be no assurance that the Partnership will be able to register or qualify the Debentures in all states or other jurisdictions in which the holders of Units reside.

Under the Uniform Limited Partnership Act of the State of Illinois, the Partnership may repurchase Partnership Interests and Units representing such Partnership Interests only to the extent of its funds available therefor. Accordingly, if the exchange of Units in the Debenture Exchange Offer would result in such an impairment of the Partnership's capital, the Partnership would only be able to issue Debentures in a principal amount equal to its account under its Partnership Agreement.

Effect on Partnership

For pro forma financial information showing 100% acceptance of the Debenture Exchange Offer, see "Pro Forma Financial Statements."

As a result of the Debenture Exchange Offer, the interest of the General Partners and their affiliates in the Partnership may be increased. See "Prospectus Summary -- Ownership and Control of the Partnership," "Capitalization," and "Principal Unitholders."

Description of Debentures

General. The Debentures are to be issued under an Indenture (the "Indenture"), to be dated on or about the closing date of the Debenture Exchange Offer, between the Partnership and ______________________________, as Trustee. A copy of the proposed form of Indenture is an exhibit to the Registration Statement of which this Prospectus is a part. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indenture, including the definitions therein of certain terms. Wherever particular sections or defined terms of the Indenture are referred to, it is intended that such sections or defined terms shall be incorporated herein by reference.

The Debentures issuable pursuant to the Indenture will be limited to the aggregate principal amount of Debentures issued pursuant to the Debenture Exchange Offer, will be issued in denominations of $1,000 and multiples thereof in fully registered form only, will bear interest from the date of issuance at the rate of 9% per annum and will mature 15 years from the date of the Indenture. If the number of Units held by any person would not permit the issuance of Debentures in $1,000 principal amounts to such person, an appropriate adjustment will be provided. The Indenture will not limit the amount of other indebtedness or securities which may be issued or incurred by the Partnership or any of its subsidiaries.

Principal will be payable, and the Debentures will be transferable, at the office or agency of the Partnership maintained for such purposes in Chicago, which initially will be the corporate trust office of the Trustee, at ____________.

Interest on the Debentures will be payable each year semiannually, on the calendar day on which the Indenture is dated and the corresponding calendar day six months thereafter, to registered holders of record at the close of business on the calendar days approximately 15 days prior to such interest payment dates. Interest will be paid by check mailed to such registered holders.

Subordination. The Debentures will be subordinated and subject in right of payment to the prior payment in full of all Superior Indebtedness of the Partnership. Superior Indebtedness will be defined for this purpose as any indebtedness for money borrowed outstanding on the date of execution of the Indenture as originally executed, or thereafter created, incurred or assumed, for the payment of which the Partnership is at the time of determination responsible or liable as obligor, guarantor or otherwise, other than indebtedness as to which, in the instrument creating or evidencing the same or pursuant to which the same is outstanding, it is provided that such indebtedness is subordinate in right of payment in the same manner and to the same extent as the Debentures. The Indenture does not limit the amount of Superior Indebtedness which the Partnership may incur.

No payment of principal of or interest on the Debentures may be made and no Debentures may be purchased by the Partnership if any event of default with respect to any Superior Indebtedness, permitting the holders to accelerate the maturity thereof, shall have occurred and be continuing or if Superior Indebtedness which has become due remains unpaid. Upon any acceleration of the principal due on the Debentures or any payment or distribution of assets of the Partnership to creditors upon any dissolution, winding up, liquidation or reorganization, whether voluntary or involuntary, or in bankruptcy, insolvency, receivership or other proceedings, all principal of (and premium, if any) and interest due or to become due on all Superior Indebtedness must be paid in full before the holders of the Debentures are entitled to receive or retain any payment. Subject to the payment of all Superior Indebtedness, the holders of the Debentures are to be subrogated to the rights of the holders of Superior Indebtedness to receive payment or distributions of assets of the Partnership applicable to Superior Indebtedness until the Debentures are paid in full. By reason of such subordination, in the event of insolvency creditors of the Partnership who are holders of Superior Indebtedness will receive more, ratably, than the holders of the Debentures.

Sinking Fund. The Partnership will make sinking fund payments on the last day of the eleventh, twelfth, thirteenth and fourteenth years, in amounts sufficient to redeem on the last day of each such year 20% of the aggregate principal amount of Debentures originally issued. The Partnership will be entitled, at its option, to credit against the principal amount of such Debentures so required to be redeemed the principal amount of Debentures redeemed, other than through operation of the sinking fund, or required by the Partnership on the open market or otherwise and delivered to the Trustee for cancellation (and not so previously credited). All Debentures redeemed for the sinking fund shall be selected by the Trustee, in such manner as it in its sole discretion deems appropriate and fair, and shall be redeemed on at least 30 days' notice at 100% of the principal amount thereof plus accrued interest to the redemption date.

Optional Redemption. The Debentures may be redeemed on at least 30 days' and not more than 60 days' notice at the option of the Partnership, as a whole or in part, at any time, at 100% of the principal amount thereof, together with accrued interest to the date fixed for redemption.

Covenant -- Restrictions on Distributions. The Indenture will prohibit the declaration or payment of any distribution on, or the purchase, redemption or other acquisition by the Partnership of, Units if (i) at the time thereof, an Event of Default shall have occurred and be continuing or shall result therefrom or (ii) after giving effect thereto, the aggregate amount set aside or paid for such purpose subsequent to October 31, 1984, would exceed the sum of (A) the Consolidated Net Income of the Partnership and its subsidiaries subsequent to October 31, 1984, (B) the aggregate net proceeds (including the fair market value of any property) received from the issue or sale of Units, warrants or other rights to acquire Units of the Partnership or from the issue or sale of any indebtedness of the Partnership which has been converted into Units, in each case subsequent to October 31, 1984, and (C) $_________.

Defaults. The Indenture will provide that the happening of one or more of the following events shall constitute an Event of Default with respect to the Debentures: (i) default for 30 days in the payment of interest on any Debenture; (ii) default in the payment of the principal of any Debenture; (iii) default by the Partnership in the performance of the covenant described under "Covenant -- Restrictions on Distributions"; (iv) default, for 90 days after written notice, in the observance or performance of any of the other covenants or agreements in the Debentures or in the Indenture; and (v) certain events of bankruptcy, insolvency, receivership or reorganization of the Partnership. In case an Event of Default shall have occurred and be continuing, the Trustee or the holders of at least 25% in aggregate principal amount of the Debentures then outstanding may declare the principal of all the Debentures to be due and payable immediately, but such declaration may be annulled, and certain past defaults waived, by the holders of not less than a majority in aggregate principal amount of the Debentures then outstanding, upon the conditions provided in the Indenture. The Indenture will provide that the Trustee shall, within 90 days after the occurrence of a default, give to the holders of the Debentures notice of all uncured defaults known to it (the term "default" being defined to include the events specified above without grace periods or notice); provided that, except in the case of default in payment of principal or interest in respect of the Debentures, the Trustee shall be protected in withholding such notice if and so long as the Board of Governors, the executive committee, or trust committee of directors or responsible officers or both of the Trustee in good faith determines that the withholding of such notice is in the interest of the Debenture holders. The Partnership will be required to furnish to the Trustee annually an officers' certificate to the effect that the Partnership is not in default under any provision of the Indenture.

Subject to the provisions of the Indenture relating to the duties of the Trustee, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request, order or direction of any of the holders of the Debentures, unless such holders shall have offered to the Trustee reasonable indemnity. Subject to such provision for indemnification, the holders of a majority in principal amount of the Debentures then outstanding will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee.

Modification of Indenture; Waiver of Covenants. The Indenture will provide that, with the consent of the holders of not less than 66-2/3% in aggregate principal amount of the Debentures at the time outstanding, modifications and alterations of the Indenture may be made which affect the rights of the holders of the Debentures; but no such modification or alteration may be made which would (i) extend the fixed maturity of the Debentures, or reduce the principal amount thereof, or reduce the rate or extend the time of payment of interest thereon, or (ii) reduce the above-stated percentage of holders required to modify or alter the Indenture, without the consent of all the holders of the Debentures.

The holders of a majority in principal amount of the Debentures at the time outstanding may waive compliance with the covenant described under "Covenant -- Restrictions on Distribution."

Satisfaction and Discharge. The Indenture will provide that it shall be satisfied and discharged after such date if (i) the Partnership shall deliver to the Trustee for cancellation all outstanding Debentures, or (ii) all outstanding Debentures not delivered to the Trustee for cancellation shall have become due and payable, or will, within one year, become due and payable at their stated maturity, or are to be called for redemption within one year, and the Partnership shall have delivered to the Trustee or any paying agent under the Indenture an amount sufficient to pay the principal of and interest on such Debentures, and if, in either case, the Partnership shall pay all other amounts payable by it under the Indenture.

Limitation of Claims in Bankruptcy

For purposes of the federal Bankruptcy Code, the Debentures may have an issue price less than their principal amount, resulting in an original issue discount. If a bankruptcy case is commenced in respect of the Partnership, the claim of the holder of a Debenture in respect of principal would be limited under Section 502(b)(2) of the Bankruptcy Code to the issue price of the Debenture plus that portion of the original issue discount for purposes of the Bankruptcy Code which is amortized from the date of issue to the commencement of the bankruptcy case.

Information Concerning the Trustee

The Partnership may from time to time borrow from the Trustee, maintain deposit accounts and conduct other banking transactions with it in the ordinary course of its business.

Federal Income Tax Consequences of Debenture Exchange Offer

The following discussion of certain federal income tax consequences of the Debenture Exchange Offer is based upon the currently applicable provisions of the Internal Revenue Code of 1954, as amended (the "Code"), and the Treasury Regulations promulated thereunder (the "Regulations"), as well as judicial and administrative interpretations thereof. The Code and Regulations are subject to change or reinterpretation, both prospectively and retroactively. THE FOLLOWING DISCUSSION IS A GENERAL ONE AND DOES NOT PURPORT TO COMPLETELY DESCRIBE THE FEDERAL, OR TO DESCRIBE AT ALL THE STATE, LOCAL OR FOREIGN TAX CONSEQUENCES (WHICH MAY BE SIGNIFICANT) TO THE UNITHOLDERS. THEREFORE, EACH UNITHOLDER IS ADVISED TO CONSULT WITH HIS PERSONAL TAX ADVISOR.

1. General Rules

Under existing federal tax law, a Unitholder who exchanges part, but not all, of his Units for Debentures will likely be treated as having received the Debentures as a current distribution from the Partnership. He will also be deemed to have received a cash distribution from the Partnership to the extent that his share of Partnership liabilities is reduced by reason of his acceptance of the Debenture Exchange Offer.

Where a current distribution reduces a partner's interest in a partnership, the distribution is fragmented into two parts for federal income tax purposes. A portion of the current distribution will be treated as having been received in exchange for "section 751 assets." Where a partnership has "section 751 assets" and the partner does not receive an in-kind distribution of a proportionate share of such assets corresponding to the proportionate reduction in his interest in the partnership, the partner is treated as if he had received a distribution in kind of the share of the "section 751 assets" and then as if he had sold such assets to the partnership and received a portion of the current distribution in payment for such assets. The remainder of the distribution is treated as a regular current distribution and taxed pursuant to the rules of section 731(a) of the Code. Pursuant to these rules, a partner of a partnership is not permitted to recognize a loss in connection with a current distribution. Taxable gain is recognized to a partner on a current distribution only to the extent that any money distributed (or deemed distributed by reason of the reduction in the partner's share of partnership liabilities) exceeds his adjusted basis in the partnership. A partner is not taxed on a current distribution of property (other than money) from a partnership.

2. Tax Treatment of the Portion Treated As Payment for Section 751 Assets.

Pursuant to the general rules outlined above, in the Debenture Exchange a Unitholder will be regarded as having first received from the Partnership and then sold to the Partnership a proportionate share of the Partnership's section 751 assets in exchange for part of the Debentures received and part of any deemed cash distribution resulting from the reduction in the Partner's share of liabilities. The Unitholder will realize ordinary gain or loss on such a constructive sale equal to the difference between the fair market value (in the case of a Unitholder who uses cash basis accounting for tax purposes) or the principal amount (in the case of a Unitholder who uses accrual basis accounting for tax purposes) of the portion of the Debentures treated as received for such "section 751 assets" plus the amount of the deemed cash distribution treated as received for such "section 751 assets" and the Unitholder's basis in the "section 751 assets" constructively sold. That basis will be equal to the Partnership's basis in the assets or, if less, the basis of the Unitholder in his Units.

The effect of these rules upon a Unitholder participating in the Debenture Exchange will depend upon the Unitholder's individual situation, but it is possible that a Unitholder could be subject to tax on a significant amount of ordinary income without having received cash from the Partnership.

"Section 751 assets" include substantially appreciated inventory items and unrealized receivables. For this purpose, the term "unrealized receivables" is defined as including not only receivables not previously included in income by the Partnership for goods or services, but also, among other things, amounts attributable to section 1245 and section 1250 depreciation recapture, section 1251 Excess Deductions Account recapture, section 1252 soil and water conservation and land clearing expense recapture, and section 1254 intangible drilling cost recapture.

3. Tax Treatment of the Remainder of the Distribution.

The remainder of the Debentures and of the deemed cash distribution will be regarded as having been distributed to the Unitholder as a current distribution taxed pursuant to the rules of section 731(a) of the Code. These rules provide different consequences for current distributions of "money" and "property." It is uncertain under present law whether the Debentures should be treated as "money" or as "property" for this purpose.

If the Debentures are treated as "property," a Unitholder will recognize gain only if the deemed cash distribution he receives by reason of the reduction in his shares of Partnership liabilities exceeds his basis in all of his Units.

If the Debentures are treated as "money," the amount that a Unitholder will be regarded as having received will likely depend upon whether the Unitholder accounts for tax purposes on the cash basis or on the accrual basis. See, Revenue Ruling 79-292, 1979-2 C.B. 287. A cash basis Unitholder will likely be required to determine the fair market value of the Debentures and treat that value as the amount of money received. An accrual basis Unitholder will likely be required to treat the principal or face amount of the Debentures as the amount of "money" received. In either case, the amount of "money" so determined will be added to the deemed cash distribution resulting from the reduction of the Unitholder's share of Partnership liabilities, and the Unitholder will recognize gain if the sum exceeds his basis in all of his Units.

Gain recognized in either case should be treated as capital gain. Whether it is long-term or short-term will depend upon the Unitholder's holding period in his Units.

Neither the term "money" nor the term "property" is defined in the partnership sections of the Code or in the Regulations. There are no cases or authorities dealing with partnerships that provide insight as to the definition. Authorities dealing with other sections of the Code suggest that the Debentures should be regarded as "property," but these authorities are not necessarily binding on the Internal Revenue Service on this question.

4. Basis and Holding Period.

The Unitholder should have a basis equal to the fair market value (if the Unitholder is a cash basis taxpayer) or to the principal or face amount (if the Unitholder is an accrual basis taxpayer) for those Debentures treated as received in the Debenture Exchange for "section 751 assets." His holding period for such Debentures should begin on the date of the Debenture Exchange.

If the remainder of the Debentures are treated as being received as part of a current distribution of "property," a Unitholder would be considered to have a zero basis in them. A Unitholder's basis in his Units would be reduced (but not below zero) by the deemed distribution of section 751 assets and by the amount of the deemed distribution resulting from the reduction in his share of Partnership liabilities (excluding the part of the deemed distribution attributable to the "section 751 assets"). The Unitholder's holding period for the Debentures would commence upon the date of the Debenture Exchange.

Alternatively, if the remainder of the Debentures are treated as being received as part of a current distribution of "money," a Unitholder would have a basis in all Debentures that he receives equal to their fair market value (if the Unitholder is a cash basis taxpayer) or to their principal or face amount (if the Unitholder is an accrual basis taxpayer). A Unitholder's basis in his Units would be reduced (but not below zero) by the deemed distribution of "section 751 assets," by the fair market value or principal amount, as the case may be, of the Debentures not treated as received for "section 751 assets," and by the amount of the deemed distribution resulting from the reduction in his share of Partnership liabilities (excluding the part of the deemed distribution attributable to the "section 751 assets"). The Unitholder's holding period for the Debentures would commence upon the date of the Debenture Exchange.

5. Investment Tax Credit Recapture.

A Unitholder may be liable for investment tax credit recapture upon the exchange of Units for Debentures. However, such recapture generally will occur only if a Unitholder's interest in the Partnership is reduced to less than two-thirds of his interest for the period during which investment tax credit was taken. A reduction in a Unitholder's interest in the Partnership could result from the admission of additional limited partners or Unitholders or from disposition of all or a portion of his interest. The amount of investment tax credit to be recaptured will depend on how long the Partnership has held the property and when the disposition or reduction in interest occurs.

6. Original Issue Discount.

Presently pending federal income tax legislation contains a proposal which, if enacted, broadly extends the coverage of the provisions of the Code relating to original issue discount. If these or similar provisions are adopted, depending upon the level of interest rates at the time of the Debenture Exchange, the Debentures could be regarded as having been issued with original issue discount. This would result in holders having to report as interest amounts in excess of the stated interest rate of the Debentures.

7. Possible Recharacterization of the Transaction.

The Internal Revenue Service has taken the position in several recently litigated cases that distributions made by a partnership to some but not all partners shortly after formation of the Partnership should not be treated as current distributions, but rather as proceeds from the sale of property to the partnership. According to this position, in such situations the recipients in substance might be regarded as having sold a portion of the property they contributed to the partnership to the remaining partners. Although the Internal Revenue Service has been unsuccessful in advancing this position in court, there is legislation currently pending which would provide the Internal Revenue Service with broad power to draft regulations to cover so-called "disguised sales." The committee reports accompanying the legislation suggest that the regulations "may provide a period, such as three years, during which contributions by and distributions to the same or another partner normally will be presumed related." If such legislation is passed, it is possible that the Internal Revenue Service may attempt to integrate the Debenture Exchange with the formation of the Partnership and attempt to recharacterize the Debenture Exchange as a disguised sale.

Stock Exchange Listing

The Partnership intends to make application to list the Debentures on the American Stock Exchange. However, because the Partnership cannot predict the number of Debenture holders after consummation of the Debenture Exchange Offer, it does not know whether it will be able to meet the distribution requirement or other requirements for listing upon such Exchange or any other stock exchange.

MANAGEMENT

The General Partner will have the sole authority to bind the Partnership and to carry on the business and affairs of the Partnership. The Partnership has entered into a Management Agreement with CFF Management Corporation, an affiliate of the General Partner. CFF Management Corporation will provide day-to-day management, record-keeping, supervision, development and financial services to the Partnership, including, without limitation, the location and supervision of tenants and operators, the collection of rents, the periodic inspection of the Partnership's properties and the coordination of the Partnership's purchasing and selling efforts. As compensation for such services, CFF Management Corporation will receive five percent (5%) of all cash receipts from rents and up to twelve percent (12%) of receipts from other operations, such as custom farming, generated from whatever source (the "Management Fee"), out of which all other management fees must be paid. In addition, CFF Management Corporation will be fully reimbursed for all costs incurred by on behalf of the Partnership. Certain of the general partners of FMC Management Co., the general partner of the General Partner, are stockholders of CFF Management Corporation.

The Partnership has entered into an Administrative Services Agreement with The Professionals, Inc., an affiliate of the General Partner, to provide certain administrative and investment advisory services for which The Professionals, Inc. will be compensated in an amount equal to two and one-half percent (2-1/2%) of total gross revenues and 1% annually of all funds available for investment. Certain of the general partners of FMC Management Co., the general partner of the General Partner, are stockholders of The Professionals, Inc.

The Partnership will have an Advisory Board, which will consist of not less than six and not more than fourteen members, with at least three members designated by the General Partner and at least three members elected by the Limited Partners. The initial members of the Advisory Board of the Partnership, who will serve until their successors have been elected and qualified, are:

Representatives of the General Partner

Name	Age	Principal Occupation
Richard C. Hollerud	45	Farm brokerage and management (New Hampton, IA)
James S. Rudnick	43	Investment advisor (Chicago, IL)
James Rissler	50	Farming (Charles City, IA)

Representatives of the Limited Partners

Name	Age	Principal Occupation
Curtis Wellman	45	Farming (La Porte City, IA)
Bert Knoblauch	59	Farming (Low Point, IL)
Max Steege	47	Farming (New Hampton, IA)

The Repesentatives of the Limited Partners shall serve for staggered terms, so that some members will initially serve for one year, others for two years, and others for three years, and, thereafter each of the members elected by the Unitholders will serve a three-year term. Members of the Advisory Board who are Affiliates of the General Partner will not be compensated for service on the Board, but will be reimbursed for actual expenses in attending meetings of the Board. The Partnership may from time to time compensate members of the Advisory Board who are not Affiliates of the General Partner for service on the Board. The Advisory Board will designate a Conflicts Committee, which will consist of two or more members who are not affiliates of the General Partner. The Conflicts Committee will review any transaction between the Partnership and the General Partner or any affiliate of the General Partner, and any transaction affecting the Partnership in which the General Partner or an affiliate of the General Partner has an interest in order to insure that any such transaction is in the best interests of the Partnership. The Partnership will not enter into any transaction with the General Partner or an affiliate of the General Partner which has been determined by the Conflicts Committee to not be in the best interests of the Partnership. No such approval, however, shall be required with respect to the Management Agreement and the Administrative Services Agreement, or any renewal thereof.

The General Partner anticipates hiring consultants from time to time, to aid management in operations and planning.

It is expected that certain affiliates of the General Partner will devote most of their working time to business other than the Partnership and the Operating Companies. See "Potential Conflicts of Interest."

None of the Partnership's partners or representatives have received from the Partnership cash or cash equivalent remuneration nor will any such persons be employed or compensated as an employee of the Partnership nor of the Operating Companies following the Exchange Offer. Such persons, however, may be employed and compensated by Affiliates of the General Partner, including CFF Management Corporation, The Professionals, Inc. and CFF Realtors.

THE GENERAL PARTNER

The General Partner will be issued 70,000 Partnership Interests which have been transferred to individual partners of the General Partner. The actual number of Interests owned by each of them is subject to adjustment depending upon the aggregate Exchange Value of all Property Interests exchanged for Partnership Interests or Units. No affiliate of the General Partner (other than CFF Realtors), however, will own 1% or more of the Partnership Interests outstanding following completion of the Exchange Offer excluding any Partnership Interests that may be issued to him in connection with the Exchange Offer on the same terms and conditions as Partnership Interests or Units are issued to others.

The general partner of Farm Management Company of America is a general partnership, FMC Management Co., the partners of which are the following:

GENERAL PARTNERS

RICHARD C. HOLLERUD (age 45) is a graduate of Luther College (1961) and received his Masters Degree from Mankato State College in Minnesota. Since 1974 he has been engaged in the selling, exchange, appraisal and management of farm land, primarily in Northern Iowa, and has owned and operated Hollerud and Associates, a farm brokerage and management company since 1978. He is past president of the Iowa Chapter of the Farm and Land Institute and holds the designation of Accredited Farm and Land Member. He is also a Graduate of the Realtor Institute and is a certified real estate instructor for the states of Iowa, Minnesota and Wisconsin. He has also served on the state and national FLI committees of the National Association of Realtors.

JAMES S. RUDNICK (age 43) is President and majority stockholder of THE PROFESSIONALS, INC., an investment advisory firm located in Chicago. The firm is registered with the Securities and Exchange Commission as an Investment Advisor and provides money management and financial advice to clients, who are typically high income businessmen, professionals and professional athletes. This company was formed in February of 1983 and prior to its formation, Rudnick served as Senior Vice-President of the Lomas and Nettleton Company, the largest real estate investment banking company in the United States. Rudnick has prior experience as a practicing tax lawyer, real estate broker and as owner of a chain of nine restaurants. He is a graduate of the University of Wisconsin (B.S.), the University of Chicago Law School (J.D.) and New York University School of Law (Masters of Tax Law).

CURTIS WELLMAN (age 45) is the owner and operator of Wellman Farms in LaPorte City, Iowa. This 4200 acre facility is involved in the production of grain, and has extensive livestock facilities. Wellman is very active in farm management and is the managing partner of several other farm partnerships, encompassing over 1000 acres. Wellman is also the owner of a Ford dealership in LaPorte City.

JAMES RISSLER (age 50) is a businessman, an accountant and a farmer in Northern Iowa. He currently farms approximately 820 acres and is also the owner of a rendering company. Rissler sold his accounting firm several years ago and now devotes his energies to farming and investing. He is a graduate of Drake University (B.S.).

JGM INVESTMENTS is a partnership with investments in diversified commercial real estate. JGM Investments is a controlling shareholder in Consolidated Agribusiness, Inc., which is the general partner in 12 limited partnerships, each of which is engaged in one or more farming or farm related activities, including grain farming; grain and feed storage; livestock feeding services; dairy cattle breeding, raising, feeding, storage and milking; hog breeding, raising and finishing; and custom farming and cropping. These partnerships own in the aggregate approximately 870 acres of farmland, storage facilities for approximately 60,000 bushels of grain and approximately 1,500 head of livestock. JGM Investments is a general partner in Harbourtown Company, which owns a mobile home park and shopping center. In addition, JGM Investments owns interests in residential and commercial rental properties and undeveloped land.

The Limited Partners in Farm Management Company of America are the following:

LIMITED PARTNERS

JAMES BRONNER is a Chicago businessman with interests in several Court Clubs and serves as a sports agent representing approximately 65 baseball players.

ARTHUR CLAMAGE AND DEBRA CLAMAGE. Arthur Clamage is a partner of and executive vice-president of The Hiffman-Shaffer Co., a Chicago based real estate brokerage and development firm. Debra Clamage is a partner in a real estate firm in Schaumburg, Illinois which firm acts as agent for several Chicago banks in preparing distressed properties for marketing to potential investors.

RISSLER FAMILY PARTNERSHIP is a partnership owned by members of the family of James Rissler, one of the general partners described above.

FLOYD LOFCHIE is President of Floyd Lofchie and Associates, a Chicago based manufacturers representative and consultant to the mail order industry.

BERT AND DON KNOBLAUCH are farmers owning and operating farms in Peoria, Illinois (800 acres) and in Millerton, Iowa (1400 acres).

FARRELL COCKERHAM is the managing partner of an investment group of farmers and accountants in the Cedar Rapids area. He currently farms in excess of 1500 acres both as an owner and as a tenant.

MAX STEEGE has been in farming all of his life and currently owns in excess of 1300 acres. He is a licensed real estate broker in Iowa and is immediate Past Potentate of the Northeast Iowa Shrine, he is a One Hundred

Bushel club award recipient and he is involved in operation and ownership of a 300,000 bushel grain elevator.

RICHARD LINN is semi-retired and now acts as a consultant for Underwriter's Safety Device Company. This company was owned by Mr. Linn prior to his selling to his employees. He is also 50% owner of International Hydraulics, Inc., a manufacturer of drill heads and a fabricator of electrical connectors.

DR. WILLIAM GILLIGAN is an Orthopedic Surgeon in the Chicago area.

RONALD RYDIN is the owner of Rydin and Company, a Chicago based real estate brokerage firm.

JEFFREY S. ROSS is a Vice-President of Shearson, Lehman, American Express specializing in institutional stock sales.

POTENTIAL CONFLICTS OF INTEREST

Certain Affiliates of the General Partner presently intend to recommend for inclusion in the Exchange Offer one or more of the farms in which they have a Property Interest. The inclusion of certain of such Property Interests will require the approval of unaffiliated investors in such properties, which approval, if given, will be dependent upon such investors' evaluations of the final terms and conditions of the Exchange Offer as they pertain to such investors, including the number of Units to be exchanged for such Indirect Interests. No assurance can be given as to the approval of such investors (or of certain other persons whose consent may be required), as no offer has yet been made to them and, accordingly, they have not yet had the opportunity to consider the Exchange Offer. Similarly, any such Exchange Offer will be subject, in addition to the independent appraisal and valuation, to the approval of a majority of the members of the Advisory Board of the Partnership unaffiliated with such persons.

The General Partner has entered into a Management Agreement with The Professionals, Inc. to provide certain administrative and investment advisory services. Certain of the general partners of FMC Management Co., the general partner of the General Partner, are stockholders of The Professionals, Inc.

The General Partner has entered into a Management Agreement with CFF Management Corporation. Certain of the general partners of FMC Management Co., the general partner of the General Partner, are stockholders of CFF Management Corporation.

Certain officers, directors, stockholders and partners of firms providing services to the Partnership will also be members of the Advisory Board of the Partnership and/or affiliates of the General Partner. While each of these persons has fiduciary obligations to act in the best interests of the Partnership, they have similar obligations with respect to the other firms of which they are members or representatives. Consequently, conflicts of interest may confront the persons occupying such dual capacities.

In addition, conflicts may arise because certain Affiliates of the General Partner are and expect to continue to be engaged in the business of owning, operating and managing Agricultural Properties which may be in competition with the operation and sale of the Agricultural Properties owned by the Partnership. Also, certain affiliates of the General Partner are real estate brokers engaged primarily in handling the purchase and sale of farm properties.

The Partnership, the General Partner, CFF Management Corporation, CFF Realtors and FMC Management Co. will be represented by the same counsel and most likely by the same auditors and accountants. Neither the General Partner nor the Partnership intends to retain separate professionals in the event of disputes arising between the General Partner and the Partnership. No one has been engaged solely to represent the interest of the Owners. Accordingly, the prospective purchasers should seek independent professional advice in regards to any matters relative to their rights in relationship to the General Partner and the Partnership.

PLAN OF DISTRIBUTION

The Depositary Units will be offered to Owners of Property Interests only by the General Partner and its general partners (the "Representatives"). The Representatives will use their best efforts to find eligible Owners who desire to acquire Units through the Exchange Offer. The Representatives will receive no compensation for their services in locating Owners. The Partnership will indemnify the Representatives against certain liabilities, including liabilities under the Securities Act of 1933, to the extent permitted by law. In the opinion of the Securities and Exchange Commission, indemnification for liabilities arising under the Securities Act of 1933 is against public policy and therefore unenforceable.

The General Partner has entered into a real estate brokerage agreement with CFF Realtors to act as coordinator (the "Real Estate Coordinator") of the real estate brokers and finders submitting Property Interests to the Partnership. Prior to this offering, the Real Estate Coordinator has committed to purchase a limited partnership interest entitling it to acquire 30,000 Units (subject to adjustment for any Recapitalization). The Real Estate Coordinator may compensate finders who are licensed real estate brokers and who introduce the Partnership to Owners of Property Interests or who perform customary real estate brokerage functions for an Owner or where required by local law. Finders may not perform any functions of securities broker/dealers, including solicitation or participation in the solicitation of Reconfirmation Forms. No Valuation Request will be performed unless it is submitted by the Owner.

The amount of such fees will be set by the Real Estate Coordinator in each case and will not exceed one Unit for each 60 Units issued in the Exchange Offer for which the Property Interest for the finder or real estate broker is responsible.

Finders designated by Owners and real estate brokers appointed by the Real Estate Coordinator on behalf of the Partnership will be expected to: (i) advise Owners as to the value of their Property Interests, the local real estate market and local real estate practice; (ii) assist Owners in gathering the real estate documentation requirement by Letters of Acceptance and in obtaining consents from lenders, lessors, lessees and local authorities to enable Owners to transfer their Property Interests to the Partnership; and (iii) review Owner's Valuation Requests and Letters of Acceptance. Finders designated by Owners and real estate brokers appointed by the Real Estate Coordinator will agree to refrain in all instances from advising Owners as to matters relating to the Units and the potential trading market therefor, or as to the Partnership, its management and prospects nor will they participate in negotiations between the Partnership and any Owner as to the Exchange Value of any Property Interest.

The Real Estate Coordinator will not be obligated to reallow any commissions to any finders or real estate brokers unless and until the finder executes and delivers to the Company a Commission Agreement in form and substance satisfactory to the General Partner. See "Closing Procedures" Real Estate Commissions and Finders' Fees."

Each Owner accepting the Exchange Offer will be required to represent in his Letter of Acceptance that he has not made, and will not make prior to the Exchange Date, any commitment (whether legally binding or otherwise) to sell or otherwise dispose of the Units to be received by him pursuant to the Exchange Offer. However, except as stated below, after the Exchange Date each Owner is free to resell the Units received by him, unless he is an "affiliate" of the Partnership.

Each Owner (including affiliates of the General Partner if they exchange Property Interests) will agree in his Letter of Acceptance that he will not, prior to six months from the Exchange Date, without the prior written consent of the General Partner, sell, transfer or otherwise dispose of Units in excess of the greater of (i) 10% of the Units received in the Exchange Offer or (ii) Units representing $100,000 of fair market value; provided however, that any Owner may sell Units in excess of the above restriction through a registered offering.

As soon as possible after the Exchange Date, the Partnership will endeavor to register and arrange for a Secondary Offering of Units owned by Unitholders who wish to participate. Such public offering would probably be on a "best efforts" basis and it is impossible to predict how many Units, if any, would be sold thereunder. All sales under such registered offering would be prorated among the Unitholders who elect to participate.

THE PARTNERSHIP

General

The Partnership is being formed to own and operate Property Interests acquired through the Exchange Offer. The Partnership will be organized under the Illinois Uniform Limited Partnership Act. Farm Management Company of America is the General Partner and following the Exchange Offer, will have a 7% interest in the Partnership. CFF Realtors is a Limited Partner and following the Exchange Offer will have a 3% interest in the Partnership. The principal office of the Partnership will be located at 505 North Lake Shore Drive, Suite 208, Chicago, Illinois 60611, and its telephone number at that address will be (312) 661-7000. Following the Exchange Offer, an Owner who has executed a Reconfirmation Form and received a Depositary Unit will be deemed to have become a Limited Partner. A transferee of a Depositary Receipt other than a Nonresident Alien, Foreign Business or Foreign Government may apply to become a substituted Limited Partner. Limited Partners of the Partnership and Assignees are referred to in this Prospectus as "Unitholders."

The Partnership will dissolve and terminate upon the affirmative vote of the holders of record of more than 80% of the Units held by Limited Partners of record or upon the disposition of all the assets of the Partnership. However, it may also dissolve on the occurrence of certain other events. See "The Partnership -- Summary of Limited Partnership Agreement -- Term" and "-- Dissolution."

Business and Purpose

General. The business and purpose of the Partnership will be:

A. To acquire:

1. direct interests, including fee ownership and contract purchase interests, in land, buildings and equipment used or usable for the production of agricultural commodities, particularly the production of grainbearing crops and for the processing, storage and distribution of agricultural products ("Agricultural Properties") and in stored feed and grain, particularly corn, wheat, milo and soybeans, growing crops, supplies and livestock ("Farm Products");

2. interests in mortgages and other indebtedness encumbering such Agricultural Properties ("Mortgage Interests");

3. interests in minerals in, on or under such Agricultural Properties ("Mineral Interests");

4. indirect interests ("Indirect Interests") in the form of interests in partnerships, corporations, trusts and other entities substantially all of the assets which consist of Agricultural Properties or interests therein; and

B. To manage the acquired interests, including to engage in, conduct and carry on farming, agriculture and agribusiness and to irrigate, plant, cultivate, grow, produce, harvest, process, deal in, sell, realize upon and dispose of corn, barley, seeds, grains, cereals, feeds, fodder, grasses and other farm and related products; to purchase, lease, acquire, own, hold, develop, maintain, improve and operate pastures, farms, wood lots, ponds, lands and real property of all kinds and any rights, interests or claims therein or thereto; to build, purchase, lease, acquire, own, hold improve, equip, use, occupy, maintain, manage and operate buildings, structures, works, office improvements and properties of all kinds; and to manufacture, purchase, acquire, own, hold, use, maintain, repair, improve, deal in, sell, realize upon and dispose of any articles, materials, tools, machinery, equipment and property.

While the individual general partners of the General Partner have experience in real estate and/or farm investment, management and production, in addition to the day-to-day functions of CPF Management Corporation, they also expect to utilize competent independent advisors, agents and brokers to assist them in making their decisions.

Borrowing and Other Financing. The Partnership may incur indebtedness in connection with its activities. Such indebtedness may be in the form of temporary or permanent loans from banks, institutional investors or other lenders, and may be secured by mortgages on or other interests in one or more of the Property Interests acquired through the Exchange Offer. The proceeds of borrowings may be used for working capital purposes and also to pay distributions to Unitholders. The Partnership may assume or otherwise discharge out of its assets (not the assets of the General Partner) indebtedness related to the Property Interests acquired through the Exchange Offer. See "Factors to be Considered - Assumed Liabilities."

Other. The Partnership is not a real estate investment trust and is therefore not subject to the restrictions on its activities imposed on real estate investment trusts qualified under the Code. The Partnership intends to operate in such a manner so that the Partnership will not be required to register as an investment company under the Investment Company Act of 1940 and so that the General Partner will not be required to register as an investment advisor under the Investment Advisers Act of 1940.

Summary of Limited Partnership Agreement

The rights, powers and obligations of the Unitholders will be governed by the Partnership Agreement. A copy of the Limited Partnership Agreement is attached hereto as Exhibit B and should be studied carefully before the tender of any Property Interest. The following is a brief summary of certain provisions of the Partnership Agreement. It and other references to the Partnership Agreement in this Prospectus do not purport to be complete and are subject to and qualified in their entirety by reference to the Partnership Agreement.

Depositary Receipts; Status as Limited Partners or Assignees. Each record holder of a Depositary Unit will, for purposes of the Illinois Uniform Limited Partnership Act, initially be an assignee (an "Assignee") with respect to the interests in the Partnership represented by such Units. Each such Assignee (other than a Nonresident Alien, Foreign Business or Foreign Government) may become a substituted Limited Partner (and thereby be entitled to all of the rights of a Limited Partner, including the rights to inspect the Partnership books and to vote on Partnership matters) upon (i) the execution and delivery of a Reconfirmation Form or, other request to become a substituted Limited Partner, together with the power of attorney in favor of the General Partner, and (ii) the filing of an amended Certificate of Limited Partnership evidencing the admission of such person as a substituted Limited Partner. Each record holder of a Depositary Unit (whether an Assignee or Limited Partner) during any calendar month will be allocated a pro rata share of the Partnership's profits and losses for the month then ended based upon days of ownership, regardless of whether such holder receives any cash distributions from the Partnership. See "Allocation of Profits and Losses." Each record holder of a Depositary Unit (whether an Assignee or Limited Partner) as of the applicable record date will be entitled to receive an allocable share of any cash distributions made by the Partnership. The timing and amount of such distributions will be determined by the General Partner from time to time in in its sole discretion. See "The Partnership - Distributions."

In connection with the Exchange Offer, each Owner who executed a Reconfirmation Form in connection with the Exchange Offer will, by execution of the Reconfirmation Form have applied to become a substituted Limited Partner.

Any subsequent transfer of a Depositary Receipt will only be recorded on the books of the Partnership if it complies with the restrictions on transfer of the Depositary Units discussed herein and upon execution and delivery to the Depositary of a certification by the transferee as to its citizenship/residency and of a certification by the transferor of the identity of the transferee and the economic details of the transaction. See "The Depositary Units" and "Factors to be Considered - Resale of Units."

A Limited Partner or an Assignee who has properly submitted a request to be admitted as a substituted Limited Partner and a power of attorney may withdraw the Units represented by his or her Depositary Receipt or Receipts by exchanging his or her Depositary Receipts for a certificate, which is transferable only upon death or by operation of law, evidencing the same number of limited partners' units.

The Partnership may purchase Units from Unitholders in either public or private transactions, by tender or otherwise.

Liabilities, Rights and Powers of the General Partner. The General Partner will have the full, exclusive and complete discretion in the management and control of the business of the Partnership and will share in Partnership profits and losses as described under the heading "Allocation of Profits and Losses." The General Partner will make all decisions and take all action deemed by it necessary or appropriate to conduct the business and affairs of the Partnership, although it is anticipated that the General Partner may enter into agreements with affiliates of the General Partner or other persons for the provision of management, investment advisory and administrative services.

Compensation of General Partner. The General Partner will make a contribution of capital to the Partnership through the payment on behalf of the Partnership of all Costs and Expenses of the Exchange Offer and following the Exchange Offer, will have a 7% interest in the Partnership and all profits, losses and distributions of the Partnership. In addition, Affiliates of the General Partner may also receive Partnership Units in exchange for Property Interests owned by them which are accepted for exchange by the Partnership. The General Partner will be reimbursed by the Partnership for all costs incurred by it on behalf of the Partnership (other than Costs and Expenses of the Exchange Offer) but will not receive any compensation for services as general partner.

Fiduciary Responsibility and Indemnification of the General Partner. A general partner is accountable to a limited partnership as a fiduciary and consequently must act in good faith and for the exclusive benefit of the partnership in handling partnership affairs. See, however, "Potential Conflicts of Interest." The Partnership Agreement provides that the General Partner will be liable to the Partnership and the Limited Partners and Assignees for its willful misconduct or gross negligence, but shall not be liable for errors in judgment or for any acts of omissions that do not constitute willful misconduct or gross negligence. This provision may limit the rights of action which Limited Partners and Assignees might otherwise have against the General Partner. This is a rapidly developing and changing area of the law, and Owners who have questions concerning the duties and liabilities of the General Partner should consult their counsel.

The Partnership Agreement also provides for indemnification by the Partnership of the General Partner (and the partners in the General Partner), to the extent permitted by law, against liabilities arising out of its activities with respect to the Partnership, including liabilities under the Securities Act of 1933.

The Partnership Agreement provides that no person shall be entitled to indemnification for any claim, issue or matter in which it is adjudged liable for its willful misconduct or gross negligence unless a court determines that, despite such adjudication of liability, the person is entitled to indemnification. The Partnership Agreement also provides that the Partnership may pay expenses incurred in defending suits in which indemnification may be appropriate, provided that the indemnified person agrees to repay such amounts if it is ultimately determined that it is not entitled to indemnification by the Partnership.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted pursuant to the foregoing provisions, in the opinion of the Securities and Exchange Commission such indemnification is contrary to public policy and therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Partnership of expenses incurred or paid by a person in the successful defense of any action, suit or proceeding) is asserted against the Partnership, the Partnership will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a general court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issues.

The Partnership intends, at an estimated annual cost of approximately $__________, to insure the General Partner (and each partner in the General Partner) against liabilities arising out of its status as such, whether or not the Partnership would have the power to indemnify it against particular liabilities.

Advisory Board. The Partnership will have an Advisory Board consisting of not less than six and not more than fourteen members with at least three members designated by the General Partner and at least three members elected by the Limited Partners. See "Management."

Conflict of Interest. The Advisory Board shall designate a Conflicts Committee of two or more members of the Advisory Board to review any transaction between the Partnership and the General Partner or any affiliates of the General Partner, and any transaction affecting the Partnership in which the General Partner or an affiliate of the General Partner has an interest, in order to insure that any such transaction is in the best interests of the Partnership. The Partnership will not enter into any transaction with the General Partner or an affiliate of the General Partner which has been determined by the Conflicts Committee to not be in the best interests of the Partnership.

Rights of Limited Partners. Limited Partners will not participate in the management of the Partnership and will have no influence in its operations. Responsibility and authority for the management of the Partnership will be vested exclusively in the General Partner. The concentration of powers in the General Partner is deemed advisable in order, among other things, to minimize the potential of general liability for the Limited Partners and Assignees other than the General Partner and to assure that the Partnership will be operated in a manner which will result in the tax and other consequences described herein. Limited Partners and Assignees may not be assessed for any additional capital contributions.

Each Limited Partner and Assignee will share in all profits, losses, income and expenses of the Partnership as described under the heading "Allocation of Profits and Losses" and will be entitled to participate in all distributions by the Partnership and to receive annual tax information and audited financial statements.

Each Limited Partner will be entitled to one vote for each Unit held upon each matter submitted to a vote of the Limited Partners.

Allocation of Profits and Losses. All Partnership profits and losses will be allocated to the General Partner and to the Unitholders on a pro rata basis. Since Unitholders will be required to include their shares of Partnership income for tax purposes without regard to whether there is a distribution of that income, the Unitholders may become liable for federal and state income taxes on that income even though they have received no distributions from the Partnership with which to pay such taxes.

All items of Partnership income, gain, credit, loss or deduction are to be determined for United States federal income tax purposes under the rules of the Internal Revenue Code, using the accrual method of accounting.

Distributions. Any portion of the cash of the Partnership which the General Partner deems not needed in respect of the business of the Partnership or as a reserve for contingent liabilities may be distributed from time to time to the Partners and Assignees in accordance with their respective interests.

Term. The Partnership will continue until the Partnership is dissolved upon the occurrence of any of the following events: (i) the removal, resignation, liquidation or insolvency of the General Partner, (ii) the bankruptcy or insolvency of the Partnership, (iii) the sale or other disposition of all assets of the Partnership, and distribution of the proceeds thereof, (iv) upon the affimative vote of the General Partner and the holders of more than 80% of the Units held by Limited Partners of record, or (v) any event which causes a dissolution of a limited partnership under the laws of Illinois.

Prior to the dissolution and winding up of the Partnership, the General Partner may transfer such assets as it deems appropriate to a liquidating trust or make other provision for the payment or satisfaction of contingent or unknown claims and liabilities.

Dissolution. In settling accounts after dissolution, the assets of the Partnership will be used first to pay creditors and then paid to the partners in accordance with their interests in the Partnership.

The General Partner will not be liable for the payment of the amount standing in the individual accounts of Unitholders or any portion thereof or for the return of all or any part of the contribution of Limited Partners and Assignees to the capital of the Partnership. Any such payment or return shall be made solely from the Partnership assets. The General Partner is indemnified to the extent permissible by law for any over-distribution of Partnership assets to Limited Partners and Assignees if made in good faith.

Amendment of Limited Partnership Agreement. The General Partner may amend the Partnership Agreement to make changes which do not adversely affect the rights of the Limited Partners or to alter or delete any provisions which would cause the Partnership or General Partner or their affiliates to become subject to the Investment Company Act of 1940 or the Investment Advisers Act of 1940.

Amendments to the Partnership Agreement may also be proposed by the General Partner or by Limited Partners holding more than 50% of the Units held by Limited Partners of record. An amendment may be adopted by a vote of the General Partner and the holders of more than 80% of the Units held by the Limited Partners of record except that the unanimous vote of the Limited Partners of record is necessary to amend the provisions of the Partnership Agreement respecting allocation of profits and losses and entitlement to distributions.

Affiliated Companies and Operations

The Partnership has entered into a Management Agreement with CFF Management Corporation, an affiliate of the General Partner. CFF Management Corporation will provide day-to-day management, record-keeping, supervision and development services to the Partnership. CFF Management Corporation will be fully reimbursed for all costs associated with its management of the Partnership's Properties on behalf of the Partnership and will, in addition, receive a management fee.

The Depositary

will serve as Depositary for the Partnership Units and also act as registrar and transfer agent for the Depositary Receipts. In addition to receiving an annual fee from the Partnership for serving in such capacities, the Depositary will charge fees for Depositary Receipt transfers and disbursements of Partnership distributions comparable to those customary for stock transfer and dividend disbursement fees. All depositary fees for transfers of Depositary Receipts and withdrawal of Partnership Units will be borne by the Partnership and not the Unitholder (except for fees customarily paid by stockholders for surety bond premiums to replace lost or stolen certificates, broker confirmation with respect to third party claims, and similar circumstances which will be borne by the affected Unitholder). The Partnership will indemnify the Depositary against certain liabilities incurred by the Depositary in connection with its activities as depositary, transfer agent and registrat, including liabilities arising under the Securities Act of 1933.

PRINCIPAL UNITHOLDERS

The ownership of Units will depend on the actual Property Interests exchanged. If the Exchange Offer is consummated with respect to all of the Property Interests listed in Tables I and II, the following persons would be the beneficial owners of more than five percent of the Units as of the Exchange Date:

Name and Address	Number of Units	Percent of Outstanding Units

[TO BE PROVIDED IN FINAL PROSPECTUS]

The following table shows the number of Units which would be owned by the General Partner and affiliates of the General Partner as of the Exchange Date if the Exchange Offer is consummated with respect to all of the Property Interests listed in the Tables.

Name	Number of Units	Percent of Outstanding Units

[TO BE SUPPLIED IN FINAL PROSPECTUS]

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The Exchange Offer

The following discussion of certain federal income tax consequences of the Exchange Offer is based upon the currently applicable provisions of the Internal Revenue Code of 1954, as amended (the "Code"), and the Treasury Regulations promulgated thereunder (the "Regulations"), as well as judicial and administrative interpretations thereof. The Code and Regulations are subject to change or reinterpretation, both prospectively and retroactively. THE FOLLOWING DISCUSSION IS A GENERAL ONE AND DOES NOT PURPORT TO COMPLETELY DESCRIBE THE FEDERAL, OR TO DESCRIBE AT ALL THE STATE, LOCAL OR FOREIGN TAX CONSEQUENCES (WHICH MAY BE SIGNIFICANT) TO THE PARTNERSHIP OR THE OWNERS. THEREFORE, EACH OWNER IS ADVISED TO CONSULT WITH HIS PERSONAL TAX ADVISOR.

1. Section 721(a). The Exchange Offer is intended to qualify as a transaction described in section 721(a) of the Code. Section 721(a) provides generally that, subject to the exceptions noted below, no gain or loss will be recognized to a partnership or to any of its partners in the case of a contribution of property to the partnership in exchange for an interest in the partnership.

2. No ruling will be requested. The General Partner does not plan to seek a private ruling from the Internal Revenue Service confirming that the Exchange Offer qualifies as a transaction described in section 721(a) of the Code. The Internal Revenue Service has announced that it will not issue private rulings on the question of "whether section 721 applies to the contribution of widely-held developed or undeveloped real property or interests therein . . . to a partnership in exchange for an interest in the partnership when (i) the contribution is the result of solicitation by promoters, brokers, or investment houses, or (ii) the interest in the transferee partnership is issued in a form designed to render it readily tradable." Revenue Procedure 84-22, 1984-13 I.R.B. 18. This question is in an area classified by the Internal Revenue Service as "under extensive study in which rulings or determination letters will not be issued until the Service resolves the issue through publication of a revenue ruling, revenue procedure, regulations or otherwise."

3. Opinion of Counsel. Prior to closing the Exchange Offer the General Partner will obtain an opinion of counsel that under the Code, the Regulations, published rulings, and case precedent, the Exchange Offer should qualify as a transaction described in section 721(a) of the Code. Such an opinion of counsel will not be binding on the Internal Revenue Service. No assurance can be given that the position taken by counsel in that opinion will not be challenged by the Internal Revenue Service, or, if challenged, that the position will be sustained by a court. Owners of Mortgage Interests should be aware that it is expected that such opinion will be limited to transfers by Owners of Direct Interests in Agricultural Properties and Farm Products, Mineral Interests, and Indirect Interests, and will not cover transfers of Mortgage Interests.

Consequences to Owners Who Transfer Direct Interests in Agricultural Properties and Farm Products

1. Nonrecognition or Partial Nonrecognition of Gain. If the Exchange Offer qualifies as a transfer described in section 721(a), no gain or loss will be recognized by an Owner who transfers a Direct Interest in Agricultural Properties or Farm Products to the Partnership pursuant to the Exchange Offer, subject to the following exceptions:

> (a) Closing Adjustments - Receipt of Cash or Property. The closing procedures of the Exchange Offer provide that, under certain circumstances, an Owner may receive cash or other property from the Partnership as a closing adjustment. See, "Closing Procedures - Closing Adjustments." The receipt of such cash or other property will not qualify for nonrecognition treatment under section 721(a). An Owner receiving cash or other property will be subject to tax on any gain realized (but otherwise not recognized) on his transfer of a Direct Interest to the Partnership pursuant to the Exchange Offer

to the extent of the amount of cash and the fair market value of other property received as a closing adjustment.

(b) Liabilities in Excess of Basis. If the aggregate basis of the Direct Interest in Agricultural Property or Farm Products transferred by an Owner to the Partnership is less than the liabilities of such Owner assumed by the Partnership or any liabilities to which such Owner's transferred Direct Interest is subject, the Owner may be subject to tax on a portion of the excess. Pursuant to section 752(b) of the Code, the Owner is regarded as having received a cash distribution from the Partnership in an amount equal to the liabilities assumed or taken subject to.

If this deemed cash distribution exceeds the Owner's basis in the Partnership (which includes the basis of the property and the amount of any cash transferred by the Owner to the Partnership and his share of the liabilities of the Partnership as well as the amount of gain otherwise recognized on the transfer), the Owner will realize gain pursuant to section 731(a) of the Code on the excess.

(c) Excess Deductions Account Recapture. If an Owner has an Excess Deductions Account (as defined in section 1251 of the Code) resulting from farm losses incurred prior to 1976 with respect to Agricultural Property or Farm Products to be transferred to the Partnership pursuant to the Exchange Offer, the transfer may trigger recapture of all or part of the Account pursuant to section 1251(d)(5) of the Code. The amount of recapture will depend upon the facts and circumstances of each case, but will, in general, not exceed the lesser of (a) the amount of the Excess Deductions Account of the Owner with respect to the Direct Interest transferred or (b) the excess of the fair market value of "farm recapture property" (as defined in section 1251(e) of the Code) over the fair market value of the Partnership Units received attributable to such farm recapture property. It is intended that the latter difference will be zero so that an Owner will have no recapture of his Excess Deductions Account at the time of the transfer, but it is possible that the Internal Revenue Service may question either the fair market value of the farm recapture property transferred or the fair market value of the Units received by an Owner and assert that there is recapture.

(d) Investment Tax Credit Recapture. It is likely that an Owner will be subject to recapture of investment tax credit upon transfer to the Partnership pursuant to the Exchange Offer of Agricultural Properties with respect to which investment credit has been claimed and not fully earned. The Regulations provide for an exception to recapture where a transfer constitutes a "mere change in form of conducting a trade or business." Among other things, to qualify for this exception, a transferor must show that his interest in the new trade or business (the Partnership, in this case) is "substantial in relation to the total interest of all persons." What constitutes a "substantial" interest is not defined in the Regulations or in other Internal Revenue Service authoritative statements. The only court case focusing on this question held that a

7.22% interest in a business was not "substantial." It is anticipated that the interests of many Owners will be less than 7.22%.

Any gain recognized by an Owner upon transfer of a Direct Interest in Agricultural Properties or Farm Products to the Partnership pursuant to the Exchange Offer may be characterized as ordinary gain by certain recapture rules outlined below. To the extent not characterized as ordinary gain, such gain will be allocated to the particular items of property transferred to the Partnership and taxed as ordinary income, short-term capital gain, or long-term capital gain depending upon the character and holding period of the particular items of transferred property in the hands of the Owner. Recapture rules which may apply include:

(i) Excess Deductions Account Recapture. To the extent that an Owner's Excess Deductions Account is not triggered by the transfer (see above), gain otherwise realized by an Owner on the transfer may be recharacterized as ordinary gain.

(ii) Recapture of Previously Deducted Soil and Water Conservation Expenditures and Land Clearing Costs. If an Owner has not owned farm land which he transfers to the partnership for at least ten years, then, pursuant to section 1252 of the Code, he will be subject to recapture of all or a portion of the deductions claimed with respect to such farm land under sections 175 (relating to soil and water conservation expenditures) and 182 (relating to expenditures by farmers for clearing land). All such deductions claimed will be subject to recapture if the transfer is within five years of the date of acquisition of the land. If the land is transferred: in the sixth year, 80 percent will be subject to recapture; in the seventh year, 60 percent will be subject to recapture; in the eighth year, 40 percent will be subject to recapture; in the ninth year, 20 percent will be subject to recapture; and after ten years, nothing will be recaptured. The result of this recapture will be to characterize gains otherwise realized by an Owner on the transfer as ordinary income.

(iii) Depreciation Recapture. Sections 1245 and 1250 of the Code provide for recapture of depreciation previously claimed on personal property and, in some cases and to a more limited extent, on depreciable real property (for instance, buildings and fixtures) when such property is sold or exchanged. While these sections generally do not apply to the transfer of property to a partnership, they do apply to the extent that gain is otherwise recognized on the transfer. The effect of the application of these recapture provisions on an Owner would be to recharacterize gains otherwise realized by the Owner on the transfer as ordinary income.

(iv) Tax Benefit Recapture. Gains otherwise realized by the Owner on the Exchange may be characterized as ordinary income by the tax benefit rule. That rule applies to items that have previously been expensed but have value at the time of the Exchange, and would characterize gain as ordinary to the extent of the difference between fair market value and basis of such items at the time of the Exchange.

Where Agricultural Properties or Farm Products subject to liabilities are transferred to the Partnership and simultaneously some or all of the creditors transfer their Mortgage Interest to the Partnership, the Internal Revenue Service might take the position that the Owner of the Agricultural Properties or Farm Products received Units for the full fair market value of the Agricultural Properties or Farm Products free and clear of the Mortgage Interests and then transferred Units to the Owners of the Mortgage Interests in satisfaction of the indebtedness. Based on such an analysis, the Internal Revenue Service might attempt to tax the Owner of the Agricultural Properties of Farm Products on the "deemed transfer" of Units to the Owners of the Mortgage Interests as if the Units had been sold for an amount equal to the Mortgage Interests. For the consequences to an Owner of the sale of Units, see "Resale of Units." Although such a recharacterization does not accord with either the form or the substance of the Exchange Offer, it is possible that the Internal Revenue Service might make this argument. If the Internal Revenue Service is successful in the argument, an Owner could incur tax liability on the Exchange without receiving cash to pay the taxes.

2. Basis in Partnership Units. Immediately after the exchange, an Owner will have a basis in the Partnership Units received pursuant to the Exchange Offer equal to (a) his basis in the Direct Interest in the Agricultural Properties or Farm Products transferred to the Partnership, plus (b) the amount of any cash he transfers to the Partnership, plus (c) the amount (if any) of gain he recognizes upon the transfer, plus (d) the amount (if any) of Partnership liabilities which he has assumed, plus (e) his share (proportionate to his share of Partnership profits) of Partnership liabilities, if any, as to which neither the Partnership nor any Partner is personally liable to the extent that such liabilities do not exceed the fair market value of the properties subject to such liabilities, less (f) an amount equal to liabilities of his assumed by the Partnership and any liabilities to which his transferred Direct Interest in Agricultural Properties or Farm Products is subject.

3. Holding Period for Partnership Units. An Owner's holding period for the Partnership Units received pursuant to the Exchange Offer will depend upon the nature of and his holding period in the Agricultural Properties or Farm Products contributed to the Partnership. To the extent that Partnership Units are received for a specific item of property which is (in the Owner's hands) a capital asset or depreciable section 1231 property used in the Owner's trade or business, then the holding period of the Partnership Units received for such property includes the Owner's holding period for such property. On the other hand, for Partnership Units received for any other property (including cash), the holding period will begin on the date the Partnership Units are acquired. Such other property would include, but not be limited to, Farm Products. Because of the operation of these rules, it is possible that an Owner contributing a variety of kinds of assets with different holding periods to the Partnership will have, immediately after the exchange, some Partnership Units with no holding period, some Partnership Units with a holding period of a year or less and some Partnership Units with a holding period of greater than one year. Alternatively, each Partnership Unit that the Owner holds may be regarded as having, proportionately, three separate holding periods. The Code, Regulations, and authoritative interpretations of the law do not clearly indicate which result is proper.

Consequences to Owners Who Transfer Mineral Interests or Indirect Interests

Generally, the tax consequences to Owners who transfer Mineral Interests or Indirect Interests should be the same as those outlined above for Owners who transfer Direct Interests in Agricultural Properties or Farm Products. Special recapture rules may be applicable to Owners of developed Mineral Interests, and considerations peculiar to the particular partnerships, corporations, trusts, or other entities in which Indirect Interests are held could affect the tax consequences of a transfer of such Indirect Interests. Because of this, an Owner of an Indirect Interest or Mineral Interest contemplating accepting the Exchange Offer is advised to consult with his personal tax advisor to determine whether there are any special tax considerations applicable to him.

Additional Consequences to Owners Who Transfer Mortgage Interests

The tax consequences to Owners who transfer Mortgage Interests to the Partnership pursuant to the Exchange Offer depend upon whether the transfer is properly considered to be a "contribution of property to the partnership in exchange for" Partnership Units as those terms are used in section 721(a) of the Code (in which case the exchange would be governed by section 721(a) of the Code) or whether the transfer is regarded as a transfer of Partnership Units in satisfaction of a debt of the Partnership (in which case the exchange would be governed by section 108(e)(7) of the Code). Because the effect of the transfer of the Mortgage Interests combined with the transfer of the Agricultural Properties is the satisfaction of the Mortgage Interests, treatment of the exchange as governed by section 108(e)(7) appears to be more in accord with substance than treatment of the exchange as governed by section 721(a). However, Owners of Mortgage Interests should be aware that the Code, Regulations and authoritative interpretations of the law do not provide clear guidelines for the tax consequences to Owners who transfer Mortgage Interests.

(a) Consequences If Section 721(a) Applies. If the transfer of a Mortgage Interest is regarded as a "contribution of property to the Partnership in exchange" for Partnership Units, the Owner should recognize no gain or loss on the exchange pursuant to section 721(a) of the Code. The determination the Owner's basis and holding period in his Partnership Units would be governed by the principles outlined above in "Tax Consequences to Owners Who Transfer Direct Interests in Agricultural Properties and Farm Products."

(b) Consequences If the Transfer Is Regarded as a Satisfaction of the Mortgage Interest. If the Mortgage Interest is regarded as a Partnership debt being satisfied by the receipt of Partnership Units in the Exchange, then section 108(e)(7)(F) of the Code would apply.

In the case of an Owner whose Mortgage Interest arose in connection with a loan of money, if the fair market value of the Partnership Units received is less than the Owner's basis in his Mortgage Interest, the Owner would likely recognize a bad debt loss (or make an appropriate charge to his bad debt reserve) on the Exchange. The Owner's basis in the Partnership Units would equal their fair market value at the time of the Exchange, and his holding period would commence on the date of the Exchange. The Partnership Units received by the Owner would be subject to a special recapture rule in the event that they are later sold at a gain. Any gain realized at such time would be recharacterized as ordinary income to the extent ordinary losses had previously been claimed with respect to the Mortgage Interest. If the Owner received Partnership Units with a value in excess of his basis in the Mortgage Interest, the Owner would recognize ordinary income to the extent that the excess was attributable to the recovery of a previously claimed bad debt loss or to unpaid interest that was not accrued for federal tax purposes.

For an accrual basis Owner whose Mortgage Interest arose from sales of products or services, and who has included the amount represented by the Mortgage Interest in income for tax purposes, the tax consequences would be the same as in the case of an Owner whose Mortgage Interest arose from a loan of money. For an accrual basis Owner who has not included the amount in income because he has elected the installment method or otherwise, and for a cash basis Owner whose Mortgage Interest arose from sales of products or services and who has not included the amount in income, the excess of the value of the Partnership Units received over his basis (if any) in the Mortgage Interest would generally be reportable as ordinary income or as an acceleration of payments under the installment contract (in which event their character would be determined by reference to the original installment sale). The Owner would have a basis in the Partnership Units equal to their fair market value at the time of the transfer and his holding period would commence on the date of the transfer.

Consequences to the Partnership

1. Nonrecognition of Gain. If the Exchange Offer qualifies as a transfer described in section 721(a), no gain or loss will be recognized by the Partnership upon the transfer of Partnership Units to Owners transferring Direct Interests in Agricultural Properties and Farm Products, Mineral Interests, or Indirect Interests pursuant to the Exchange Offer. Furthermore, no gain or loss should be recognized by the Partnership upon the transfer of Partnership Units to Owners transferring Mortgage Interests pursuant to the Exchange Offer either pursuant to section 721(a) or section 108(e)(7).

2. Basis and Holding Period. The Partnership basis in each separate item of property contributed to it in the Exchange will equal the adjusted basis of the contributing Partner in such item of property immediately prior to the Exchange increased by the amount (if any) of gain recognized to the contributing Partner at the time of the Exchange. The holding period of the particular item of property will include the period which it was held by the contributing Partner.

Partnership Operations

Set forth below is a summary of some of the more important features of the federal income taxation of partnerships and their partners as may be applicable to the Partnership, the Operating Companies, and the Limited Partners.

The summary is based upon the currently applicable provisions of the Internal Revenue Code of 1954, as amended (the "Code"), and the Treasury Regulations promulgated thereunder (the "Regulations"), as well as judicial and administrative interpretations thereof. The Code and Regulations are subject to change or reinterpretation, both prospectively and retroactively. There is presently pending legislation which, if enacted, could require the Partnership to change the manner in which it allocates gain or loss to Limited Partners for federal income tax purposes. See item 4 below," Partnership Allocations." Such a change in the tax laws might require a restructuring of the Partnership and the Operating Companies so that they would be treated as associations taxable as corporations rather than as partnerships for federal income tax purposes.

THE FOLLOWING DISCUSSION IS A GENERAL ONE AND DOES NOT PURPORT TO COMPLETELY DESCRIBE THE FEDERAL OR TO DESCRIBE THE STATE, LOCAL OR FOREIGN TAX CONSEQUENCES (WHICH MAY BE SIGNIFICANT) TO THE PARTNERSHIP OR THE LIMITED PARTNERS.

THE ANALYSIS CONTAINED HEREIN IS NOT INTENDED AS A SUBSTITUTE FOR CAREFUL TAX PLANNING, PARTICULARLY SINCE CERTAIN OF THE INCOME TAX CONSEQUENCES OF AN INVESTMENT IN THE PARTNERSHIP WILL NOT BE THE SAME FOR ALL TAXPAYERS. IN PARTICULAR, SEE ITEM 4, "PARTNERSHIP ALLOCATIONS," BELOW. ACCORDINGLY, PROSPECTIVE PARTICIPANTS IN THE EXCHANGE OFFER ARE URGED TO CONSULT THEIR TAX ADVISORS WITH SPECIFIC REFERENCE TO THEIR OWN TAX SITUATION.

1. Tax Status of the Partnership and of the Operating Companies

Both the Partnership and the Operating Companies will be organized as limited partnerships. For federal income tax purposes, a limited partnership may be classified either as a partnership or as an association taxable as a corporation, depending on the particular characteristics of the entity. If it is classified as a partnership, it will not be subject to tax. Instead, the various items of partnership income, gain, deduction, loss or credit will be included in the taxable income of the partners in accordance with the allocation formula set forth in the partnership agreement, provided the allocation formula has substantial economic effect and is otherwise in compliance with the provisions of the Code. If, however, a partnership is classified as an association, it will be considered a separate taxable entity and taxed as a corporation, and the partners will be considered and taxed as shareholders. If a partnership is treated as an association: (i) there will be no flow-through to the partners of the various items of partnership income, gain, deduction, loss or credit; (ii) taxable income or loss will be reported by and taxable to the partnership at the rate applicable to corporations and not at the rates applicable to the partners; and (iii) distributions to the partners will be taxable as dividends to the extent of current or accumulated earnings and profits.

Prior to closing the Exchange Offer, the General Partner will obtain an opinion of counsel that under present Federal statutes including the Code, Regulations, published rulings and case precedent, the Partnership and the Operating Companies should each be treated as a partnership for federal income tax purposes. In rendering their opinion, it is anticipated that counsel will rely upon certain representations from the General Partner. Among other things, it will be represented to counsel that the Partnership and the Operating Companies will each be duly organized limited partnerships and will have as its sole general partner, in the case of the Partnership, Farm Management Company of America which is the General Partner and itself a limited partnership organized under the Illinois Uniform Limited Partnership Act and in the case of the Operating Companies, FMC Management Co. which is the general partner of Farm Management Company of America and itself a general partnership organized under the Illinois Uniform Partnership Act. It will also be represented that the persons who are the general partners of FMC Management Co. have significant net worth and that Farm Management Co. will continue to have persons with significant net worth as general partners (or as some of its general partners) at all times during the lives of the Partnership and the Operating Companies. If the representations upon which counsel's opinion is to be based do not continue to be true, the Partnership and Operating Companies could be treated as associations for income tax purposes at some later date.

An opinion of counsel is not binding upon the Internal Revenue Service and will be based upon existing law which might be changed at any time. The General Partner does not plan to seek a private ruling from the IRS as to the tax status of the Partnership or the Operating Companies. As a result, there can be no assurance that the Partnership and the Operating Companies will be classified as partnerships for federal income tax purposes.

Limited Partners should be aware of the Tax Court decision in Philip G. Larson, 66 T.C. 159 (1976). That case involved the tax status of two California limited partnerships, each with a corporate general partner and several limited partners. Although the decision of the Tax Court was that the partnerships qualified as partnerships for federal income tax purposes, there were written dissents by a number of the judges who believed the partnerships should have been treated as associations for federal income tax purposes. Both the majority and the dissenting opinions in Larson raise questions concerning the appropriateness and proper interpretation of the current Regulations.

An appeal by the government in the Larson case to the Ninth Circuit Court of Appeals was subsequently dismissed and in Revenue Ruling 79-106, 1979-1 C.B. 448, the Internal Revenue Service indicated it would follow the Larson decision. If the Treasury, however, should amend the Regulations with retroactive effect, the risk that the tax classification of the Partnership or the Operating Companies may be challenged by the Internal Revenue Service would be substantially increased.

2. Method of Taxation

Under existing federal income tax laws, a partnership is not subject, as an entity, to federal income taxation. Instead, each partner is required to report on his own federal income tax return for each year his share of the income or loss of the partnership without regard to whether any distribution of cash or other property has been made to him.

3. Character of Income, Loss and Other Items Determined at the Partnership Level

The character of the results of the activities of each of the Partnership and of the Operating Companies will, for federal income tax purposes, be determined at the partnership level and will flow through to the partners and Unitholders. Some of the more important items which must be accounted for separately by the Partnership and the Operating Companies and allocated separately to the partners and Unitholders are the following: ordinary income or loss, short-term capital gain or loss, long-term capital gain or loss, interest expense, investment interest and tax preference items. Each partner and Unitholder will be required to aggregate Partnership items with other items of like character in the preparation of his own tax return. Certain tax benefit limitations are determined at the Partnership level.

4. Partnership Allocations

For federal income tax purposes, all items of Partnership income, gain, loss, deduction and credit will be allocated to the partners and Unitholders pro rata on the basis of Unit ownership. For federal income tax purposes, partners and Unitholders will be required to report their allocable share of Partnership income without regard to whether there is a distribution of that income. Thus, partners and Unitholders may become liable for federal income taxes on that income even though they have received no distributions from the Partnership with which to pay such taxes.

The Partnership does not intend to make a special allocation of depreciation, depletion, and gain or loss realized on property contributed to the Partnership among the partners and Unitholders so as to take account of the variation between the basis of the property to the Partnership and its fair market value at the time of contribution, but rather intends to reflect such differences in determining Units to be issued in the Exchange. It is possible that the adjustments made to Owners contributing relatively high basis property will not totally compensate them for the amounts of taxable income allocated to them arising from variations. The Code presently permits such a special allocation to be made, but does not require that the election be made. Presently pending legislation would require the Partnership to make such a special allocation. IF SUCH LEGISLATION IS ENACTED OR SEEMS, IN THE OPINION OF THE GENERAL PARTNER, REASONABLY CERTAIN TO BE ENACTED PRIOR TO THE TIME OF THE CLOSING OF THE EXCHANGE, PARTNERSHIP ALLOCATIONS WILL BE CHANGED TO COMPLY WITH THE LAW OR, IF THAT IS NOT FEASIBLE, THE PARTNERSHIP MAY BE RESTRUCTURED AS AN ASSOCIATION TAXABLE AS A CORPORATION.

5. Tax Accounting Matters

(a) Fiscal Year. The fiscal year of each of the Partnership and Operating Companies will end on December 31 unless the General Partner elects to apply for a different fiscal year. A partner or Unitholder who is on the calendar year for federal income tax purposes will include in his tax return each year his distributive share of the results of the Partnership for the same calendar year. The results of the Partnership will include the results of the Operating Companies for the same calendar year.

(b) Method of Accounting. The Partnership and the Operating Companies expect to file their tax returns on an accrual basis.

For federal income tax purposes, a partnership engaged in farming is generally entitled under the Regulations to elect the cash method of accounting for its operations unless a different method of accounting has previously been adopted. However, under rules imposed by the Tax Reform Act of 1976, corporations engaged in the trade or business of farming, and partnerships engaged in the trade or business of farming if a corporation is a partner in such partnership, are generally required to use the accrual method of accounting. For purposes of this rule, certain corporations are not treated as corporations, including Subchapter S corporations and corporations whose gross receipts are less than $1 million (taking into account the gross receipts of affiliated corporations). It is anticipated that corporations may be Unitholders of the Partnership and that some of such corporations may not either be Subchapter S corporations or corporations having gross receipts of less than $1 million.

Furthermore, rules imposed by the Tax Reform Act of 1976 limit farming syndicates to deductions for amounts paid for feed, seed, fertilizer and other farm supplies to the amount paid for such items actually used during the taxable year. Deductions for interest paid are limited to the amount attributable to the interest cost for the current taxable year.

6. Basis of the Limited Partners and Unitholders in Units

A holder's basis in Units immediately after the Exchange will be determined in the manner set forth in "The Exchange Offer." A Unitholder's tax basis will be increased by his allocable share of any Partnership taxable income and will be decreased (but not below zero) by distributions from the Partnership, by his share of the Partnership's expenditures which are neither deductible nor chargeable to capital accounts, and by his allocable share of Partnership losses. A decrease in a Unitholder's share of nonrecourse liabilities (i.e., those Partnership liabilities as to which neither the Partnership nor any partner or Unitholder is personally liable) may occur by reason of the addition of new partners or Unitholders, through repayment of the liability or through discharge of the liability by foreclosure, as a result of disposition of all or part of his Units, or otherwise.

For federal income tax purposes, an increase in nonrecourse liabilities is treated as a cash contribution and a decrease is treated as a cash distribution even though a partner receives no cash.

7. Limitations Upon Use of Partnership Losses

While it is not presently anticipated that the Partnership will have losses for federal income tax purposes, if such losses are incurred, a Unitholder's ability to take such losses into account on his individual tax return is subject to certain limitations.

Under prior law, a partner could deduct his share of partnership losses up to the amount of his basis even though it exceeded his cash investment. The Tax Reform Act of 1976 introduced a new set of rules—the "at risk" provisions. Basically, these rules were designed to limit an investor's deductions to the amount of his or her investment in the activity. The Revenue Act of 1978 retained this concept, but restructured and broadened the scope of the "at risk" limits. These "at risk" rules are discussed below. In considering these rules, one should keep in mind that a deduction may be denied a Unitholder either because he does not have sufficient basis or he is not deemed to be "at risk." The Unitholder's adjusted basis in his Units and the amount he is deemed to be "at risk" will not necessarily be the same at any time.

The "at risk" rules discussed herein are applicable only to Unitholder who are either individuals, S corporations, or corporations more than 50% of whose stock is owned, directly or indirectly, by not more than five individuals. The basic rule provides that the amount of any loss (otherwise allowable for the year) which may be deducted in connection with the activity of farming cannot exceed the aggregate amount with respect to which the Unitholder is "at risk" at the close of the taxable year.

Under this provision, a Unitholder will generally to be considered "at risk" with respect to the extent of the adjusted basis of property contributed to the activity, any amounts borrowed for use in the activity with respect to which the taxpayer has personal liability for payment from his personal assets, and the net fair market value of his personal assets which secure otherwise nonrecourse borrowings. A taxpayer shall not be considered "at risk" with respect to amounts protected against loss through nonrecourse financing, guarantees, stop-loss agreements, or other similar arrangements.

If, in any taxable year, the Unitholder has a loss from an activity to which the "at risk" rules apply, then the amount with respect to the Unitholder which is deemed to be "at risk" in subsequent tax years shall be reduced to the extent a deduction is allowed. Further, any distribution from the Partnership will reduce the amount deemed "at risk."

If the "at risk" rules apply to prevent a Unitholder from claiming a loss because of insufficient amounts "at risk," subsequent events may allow the Unitholder to realize a deduction. Any deduction denied a partner is to be carried over to subsequent tax years and can be used then if the amount which the Unitholder has "at risk" increases.

There will be recapture of previously allowed losses when the amounts "at risk" are reduced below zero by reason of distributions received by the Unitholder or changes in the status of liabilities from "at risk" to not "at risk." Recapture income resulting from the fact that a taxpayer's "at risk" amount has been reduced below zero will not be treated as income from the activity for purposes of determining whether current losses (or suspended losses) are deductible. The Internal Revenue Service has issued extensive proposed regulations under section 465 of the Code which set forth its interpretation of the "at risk" rules. Investors and their advisors should carefully review the provisions of these proposed regulations to see how they may be applied to the investor's individual situation. It is impossible to predict what final form these regulations will take or whether they will be upheld if contested in court.

Because of the limitations imposed on the deductibility of capital losses referred to in "Tax Treatment of Long-Term Capital Gain or Loss" (item 12 below), individual Unitholders' share of the net capital losses of the Partnership, if any, will not materially reduce his federal income tax on his ordinary income.

In addition, certain expenses of the Partnership might be deductible by a Unitholder only as so-called "itemized deductions" and therefore will not reduce Federal taxable income of a Unitholder who uses the "zero bracket amount."

8. Disposition of Property

Any profit or loss which may be realized by a partnership on the sale of any of its real property will be treated as capital gain or loss under the Code unless it is determined that the partnership is a "dealer" in real estate for federal income tax purposes. To the extent that assets sold constitute "section 1231 assets" (i.e., real property and depreciable assets used in a trade or business and held for more than twelve months), gains or losses and would be combined with any other section 1231 gains or losses. Net gains would be treated as capital gains (except to the extent of recapture). Net losses would be treated as ordinary losses.

In the event a partnership is deemed a "dealer" and its investment in real property is considered not to be a capital asset or section 1231 asset, any gain or loss on the sale or other disposition of such property would be treated as ordinary income or loss. The General Partner will attempt to operate the Partnership and the Operating Companies so that they are not deemed to be "dealers" in real estate for federal income tax purposes, but there can be no assurance that it will be successful in this respect.

A foreclosure is treated as a sale for tax purposes. It is possible that the partnership and consequently the Unitholders would realize taxable income upon a foreclosure without receipt of any cash.

9. Tax Treatment of Partnership Distributions

Distributions by a partnership normally will not be taxable to its partners where the partners' interests in the partnership remain unchanged. However, if cash distributions by the Partnership to a Unitholder exceed his aggregate tax basis for his Units, the excess will be taxable to him as though it were a gain from a sale or exchange of his Units. A loss will be recognized on a redemption of the Units of a Unitholder only if, following the redemption of all of his Unitholder Units for money, he has tax basis remaining. In such case, he will recognize loss to the extent of such remaining basis. Generally, if a holder has held his interest for more than one year, such gain or loss will be long-term capital gain or loss.

For a detailed discussion of the consequences of distributions to a Unitholder which result in a reduction of the Unitholder's interest in the Partnership, see "Federal Tax Consequences of Debenture Exchange Offer."

10. Dissolution or Liquidation

The Partnership or Operating Companies might be required to liquidate its property during a limited period of time, whether on dissolution or otherwise, at a time when it would not be advantageous. This might cause the Partnership to sustain substantial economic losses determined in terms of original cost. Nevertheless, the Unitholders might be required to recognize taxable income on such sale as a result of the reduction in the tax basis of the property by depreciation deductions previously taken as well as prior cash distributions. Such Unitholders might not receive cash distributions in the liquidation sufficient to cover the tax liability arising under such circumstances.

11. Disposition of Units

For the tax consequences of a sale by a Unitholder of all or a part of his Units, see "Resale of Units." The gift of Units by a Unitholder may result in federal income tax (as well as federal gift tax) liability to the donor. The gift is likely to be classified by the Internal Revenue Service as wholly or partially a sale where the Unitholder's basis for the Units is less than his proportionate share of Partnership liabilities, and to the extent that it constitutes a sale, the federal income tax consequences are as set forth in the section referred to above.

12. Tax Treatment of Long-Term Capital Gain or Loss

If an individual Unitholder's net long-term capital gain exceeds his net short-term capital loss from all sources, 60% of such excess may be deducted in computing the Unitholder's taxable income for the year. The 60% of such excess also may give rise to the application of the alternative minimum tax described below. Subject to an annual limitation of $3,000, the excess of capital losses over capital gains is deductible by an individual against ordinary income. However, only one-half of the excess of net long-term capital losses over net short-term capital gains may be used in computing such deductions.

13. Minimum Tax and Investment Interest Provisions

Among the more significant provisions of the Code affecting Unitholders are the following:

(a) Alternative Minimum Tax. The alternative minimum tax applies if it would exceed an individual's regular tax. The tax is computed as 20 percent of the amount by which the alternative minimum tax base exceeds $40,000 for married individuals filing jointly, $30,000 for unmarried individuals, and $20,000 for married individuals filing separately. The alternative minimum tax base is equal to adjusted gross income plus items of tax preference, minus specified itemized deductions. Tax preference items include the excess of accelerated over straight-line depreciation on leased personal property and 60% of the excess of long-term capital gains over capital losses. The specified itemized deductions include qualified housing interest, other interest (including interest on indebtedness incurred or continued to purchase or carry a limited partnership interest) to the extent of net investment income, charitable contributions, casualty losses exceeding 10 percent of adjusted gross income, wagering losses to the extent of wagering income, and medical expense deductions exceeding 10 percent of adjusted gross income. Certain tax preference items of Unitholders who are corporations will be subject to 15 percent reduction.

The investment tax credit does not offset the alternative minimum tax. Thus a Unitholder with no tax preference items may nevertheless incur alternative minimum tax liability, especially if the amount of credit is large in relation to the amount of regular tax otherwise due. Investment credit which produces no benefit because of the alternative minimum tax may be carried back 3 years or forward 15 years to offset the regular tax liability of other years.

(b) Investment Interest. A limitation is placed upon the deductibility of interest on funds borrowed to acquire or carry investment assets ("Investment Interest"). In general, Investment Interest is deductible by non-corporate taxpayers only to the extent it does not exceed the sum of the following items: (1) $10,000 (but only $5,000 for a married taxpayer filing a separate return and zero for a trust), and (2) net investment income, i.e., the excess of non-trade or business income from interest, dividends, rents, royalties and net short-term capital gain from investment property, excluding any long-term gains, over expenses, including straight-line depreciation, incurred in earning such income. Investment Interest which is disallowed as a deduction may be carried over to subsequent years within certain limits. While the Partnership and Operating Companies intend to use the property obtained from the Exchange Offer in the conduct of their respective trade or business, there can be no assurance that interest expense incurred by some or all of the Partnership or the Operating Companies will not be characterized by the Internal Revenue Service as Investment Interest. To the extent that the Partnership or the Operating Companies incur interest expense which is passed through to the Unitholders, and which is Investment Interest, the interest might not be allowable as a deduction to some or all of the Unitholders because of the Investment Interest limitation.

(c) Interest to Carry Tax-Exempt Obligations. Section 265(2) disallows any deduction for interest paid by a taxpayer on indebtedness incurred or continued in order to purchase or carry tax-exempt obligations. The Internal Revenue Service might attempt to reduce Partnership losses deducted by a Unitholder who also owns tax-exempt obligations by arguing that part of the interest paid by the Partnership or the Operating Companies was paid or incurred in order to enable such Unitholder to carry his tax-exempt obligations. The outcome of such an Internal Revenue Service position would depend on the particular circumstances of the Unitholder involved.

14. Activities Not Engaged in for Profit

Section 183 of the Code provides as a general rule that no deduction is allowable to an individual for "activities not engaged in for profit." Where section 183 is deemed to apply, a deduction is allowed for items, such as interest and state and local property taxes, which may be deducted without regard to whether they are incurred in a trade or business or for the production of income. However, other deductions, such as amortization and cost recovery, are allowed only to the extent that they do not exceed the gross income derived from the activity reduced by the deductions that are allowable in any event. The application of section 183 depends on the intent and facts and circumstances of each case. The General partner intends to operate the Partnership and the Operating Companies in a businesslike manner with the goal of maximizing profits.

15. Deductibility of Certain Fees and Expenses

No assurance can be given as to the deductibility of the Management Fees and Administrative Services Fees payable to affiliates of the General Partner. In a recent Tax Court case, Edward T. Pratt, 64 TC 203 (1975), it was held that payments to general partners for services to the partnership within the normal scope of partnership duties were not deductible by the partnership. The Tax Court was affirmed on this point on appeal. Pratt, 550 F2d 1023, 77-1 USTC ¶9347 (5th Cir. 1977). However, in Revenue Ruling 81-300, 1981-2 C.B. 143, the Internal Revenue Service held that on the facts of Pratt and those presented in the ruling, the payments were deductible.

Expenditures for the organization and syndication of the Partnership and the Operating Companies must be capitalized, but expenditures for the organization of the Partnership and the Operating Companies may be amortized over a 5-year period.

16. Section 754 Election

Because of the complexities of the tax accounting required, the General Partner does not presently intend to file, under section 754 of the Code, an election with respect to the Partnership or to the Operating Companies to adjust the basis of Partnership property in the case of a transfer of Units. If that election were made for all partnerships, the effect would be that, with respect only to the transferee of the Units, the basis of the property of the Partnership and the Operating Companies would either be increased or decreased by the difference between the transferee's basis for his Units and his proportionate share of the partnership's adjusted basis for all property of the partnership. Any increase or decrease resulting from such adjustment would be allocable among the Partnership's and Operating Companies' assets in accordance with rules established under the Code. After such adjustment has been made, the tranferee's share of the adjusted basis of the Partnership's and the Operating Companies' property would equal the adjusted basis of his Interest. If (as presently anticipated) the General Parnter does not make such an election, upon a sale of Partnership or Operating Companies property subsequent to a transfer of Units, taxable gain or loss to the transferee of the Units will be measured by the difference between his share of the sales price and his share of the Partnership's or the Operating Companies' tax basis in the property (which, in the absence of a section 754 election, will be unchanged by the transfer of the Units to him), rather than by the difference between his share of such sales price and the portion of the purchase price for his Units that was allocable to the property. As a consequence, upon such a sale such transferee will be subject to tax upon a portion of the proceeds which represents, as to him, a return of capital, if the purchase price for his Unit exceeded his share of the adjusted basis for all Partnership and Operating Companies properties.

17. Tax Audits

Congress, in the Tax Equity and Fiscal Responsibility Act of 1982, adopted new administrative procedures under which the tax treatment of partnership items is determined at the partnership level. The new procedures will apply to the Partnership from inception. Under the new provisions, which are contained in sections 6221 through 6232 of the Code, partners must treat partnership items in a manner which is consistent with the treatment of the same items on the partnership return, unless the partner files a statement identifying the inconsistency. Under the new rules, examination of a partnership's tax return could result in an adjustment to a partner's tax liability without any examination of the partner's tax return. It should be noted that the IRS has publicly announced its intention to audit a relatively high percentage of partnership returns, and that the new procedures are intended to promote increased compliance with the tax laws.

Pursuant to section 6229 of the Code, the statute of limitations for assessing a tax deficiency of a partner or any other person who reports partnership income or loss will expire on the later of three years after the filing of the partnership return or one year after the date on which the name of the partner or such other person is furnished to the IRS, rather than three years after the partner or another person files his personal return. Consequently, a Unitholder which is itself an entity whose beneficial owners would report the Unitholder's share of the Partnership's profit or loss must furnish the General Partner with the names, addresses and social security numbers of each beneficial owner so that they may be furnished to the Internal Revenue Service.

The General Partner will be the Tax Matters Partner of the Partnership under the new procedures and as such will have the power to extend the statute of limitations for assessing deficiencies and such extension will be binding on all Unitholders. Thus, the statute of limitations with respect to each Unitholder's tax deficiency and the tax deficiency of each other person who reports a share of Partnership profit, gain, loss, deduction, or credit, to the extent attributable to the Partnership, may be extended without his consent. All Unitholders are treated as parties to any litigation, and the result is binding on all Unitholders. The General Partner intends to keep each Unitholder informed of all administrative and judicial proceedings for the adjustment at the Partnership level of Partnership items.

Because of the procedures utilized by the Internal Revenue Service to select tax returns for audit, participation in a limited partnership investment increases the likelihood that a taxpayer's return is audited.

18. Penalties

The Tax Equity and Fiscal Responsibility Act of 1982 enacted a 10% penalty on substantial understatements of tax liability on returns due after December 31, 1982. A substantial understatement is defined as a reported liability that understates the amount required to be shown on a return by the greater of 10% of the tax or $5,000 ($10,000 for corporations other than personal holding companies and Subchapter S corporations). Taxpayers must either disclose or show "substantial authority" for their position in order to avoid the penalty in general, and must show that they "reasonably believed" that their tax return treatment of items attributable to a partnership whose principal purpose is the avoidance of tax was "more likely than not the proper treatment." Proposed regulations provide that the principal purpose of a partnership would not be tax avoidance if the partnership's purpose is the claiming of tax benefits in a manner consistent with the Congressional purpose. Proposed regulations under the substantial understatement penalty also provide that an opinion of counsel does not constitute authority for purposes of meeting the substantial authority exception to the penalty. Proposed regulations require that disclosures intended to avoid penalties on doubtful partnership items must be made on the partnership return, but that the Commissioner will automatically waive the penalty when a partner makes adequate disclosure on his personal return.

The Economic Recovery Tax Act of 1981 enacted a separate penalty on underpayments due to valuation overstatements. This penalty can apply if the value of any property or the adjusted basis of any property claimed on a return is 150% or more of the amount determined to be the correct valuation or adjusted basis. The penalty is computed as a percentage of the underpayment due to the overstatement of value. The percentage is 10% if the valuation is between 150% and 200% of the correct amount, 20% if the valuation is between 200% and 250%, and 30% if the valuation is over 250% of the correct amount. Any underpayment subject to the valuation overstatement penalty will not be subject to the substantial understatement penalty.

19. Legislative Changes

The Partnership and the Operating Companies will be subject to future legislative changes which could have an effect upon an investment in the Partnership. The General Partner has no way of predicting whether any such legislation will be adopted, what form it might take or whether it would be made applicable to previously consummated transactions. Prospective investors should consult with their tax advisers with reference to their own tax situations. See "Partnership Allocations" (item 4 above) for the possible effect of pending legislation on the allocation method presently intended to be used by the Partnership for federal income tax purposes.

20. Reports

Not later than 75 days following the close of each fiscal year, the Partnership will provide the Unitholders with information as to their share of income and losses of the Partnership, as well as certain other information, which will be sufficient to prepare their individual federal income tax returns.

21. State, Local and Foreign Taxes

In addition to the federal income tax consequences described above, a Unitholder's distributive share of the taxable income or loss of the Partnership may be required to be included in determining his reportable income for state, local or foreign tax purposes in the jurisdiction in which he is a resident.

Resale of Units

Subject to the exceptions described below which may be significant in some cases, gain or loss realized on the sale of Units by a Unitholder will generally be capital gain or loss for federal income tax purposes provided that the Unitholder is not a "dealer" in securities. Such capital gain or loss will qualify as long-term capital gain or loss if the Unitholder's holding period in the Units sold is more than twelve months. For the holding period of a Unitholder in Units received pursuant to the Exchange Offer, see "The

Exchange Offer." A Unitholder participating in the Exchange Offer may receive some Units with a holding period of not more than one year at the time of Exchange or a portion of each Unit he receives may be regarded as having a holding period not more than one year at the time of an Exchange. Unless such Units have a holding period of more than one year at the time of sale, the Unitholder will not be eligible for long term capital gain treatment with respect to all or a portion, as the case may be, of the proceeds realized on sale of the Units.

The proceeds of the sale (as well as cash deemed distributed as a result of a reduction, if any, of the Unitholder's share of Partnership liabilities resulting from the sale), will be taxed at ordinary income rates to the extent attributable to gain recognized with respect to the Unitholder's share of "section 751 assets" of the Partnership (i.e., substantially appreciated inventory items and unrealized receivables). For this purpose, the term "unrealized receivables" is defined as including not only receivables not previously included in income by the Partnership for goods or services, but also, among other things, amounts attributable to section 1245 and section 1250 depreciation recapture, section 1251 Excess Deductions Account recapture, section 1252 soil and water conservation and land clearing expense recapture, and section 1254 intangible drilling cost recapture.

For a Unitholder who received Units in exchange for a Mortgage Interest, part of any gain realized may be recharacterized as ordinary income pursuant to section 108(e)(7) of the Code. See, "The Exchange Offer - Additional Tax Consequences to Owners Who Transfer Mortgage Interests - Consequences If the Transfer Is Regarded as a Satisfaction of the Mortgage Interest."

Under certain circumstances, the federal income tax payable on a sale of Units could exceed the actual cash proceeds of sale because, upon sale or other disposition of a Unit, a Unitholder is deemed to received a cash distribution to the extent of the reduction of his proportionate share of liabilities to which Partnership assets are subject.

A Unitholder may be liable for investment tax credit recapture upon the sale of Units. However, such recapture generally will occur only if a Unitholder's interest in the Partnership is reduced to less than two-thirds of his interest for the period during which investment tax credit was taken. A reduction in a Unitholder's interest in the Partnership could result from the admission of additional limited partners or from disposition of all or a portion of his interest. The amount of investment tax credit to be recaptured will depend on how long the Partnership has held the property and when the disposition or reduction in the Partnership interest occurs. For Unitholders who are subject to investment tax credit recapture at the time of the Exchange, it is not anticipated that additional investment tax credit recapture, if any, will be significant at the time of any subsequent sale of the Units not long after the Exchange.

EXPERTS

The financial statements included in this Prospectus and elsewhere in the Registration Statement have been included herein and in the Registration

Statement in reliance upon the report of Peat, Marwick, Mitchell & Co., Chicago, Illinois, certified public accountants, and upon the authority of said firm as experts in accounting and auditing.

Certain legal matters in connection with the validity of the Units offered hereby will be passed upon for the Partnership by McDermott, Will & Emery, Chicago, Illinois, counsel to the Partnership. The statements under "Factors to be Considered - Tax Consequences," "Agreement to Exchange Debentures for Units - Tax Consequences of Debenture Exchange Offer" and "Certain Federal Income Tax Consequences" have been reviewed by McDermott, Will & Emery and have been included herein in reliance upon the authority of said firm as experts thereon. McDermott, Will & Emery represents the General Partner, the Partnership, CFF Management Corporation, CFF Realtors and FMC Management Co. Certain relatives and members of the family of one of the partners of McDermott, Will & Emery are partners in JGM Investments, one of the partners in the FMC Management Co. and a shareholder in CFF Management Corporation.

As part of the valuation process, the firm of Doane Farm Management Company will prepare and deliver to the Partnership current market value appraisals of each of the Agricultural Properties included in the Exchange Offer. Such appraisals will be used by the General Partner in the valuation process in reliance upon such firm as experts in the appraisal of Agricultural Properties.

Doane is a major farm management appraisal and agribusiness consulting firm with corporate offices in St. Louis, Missouri and 20 additional field offices. Doane is an independent company and has had no prior association with the General Partner and is not in any way affiliated with the General Partner or any other individual or entity associated with the General Partner or related companies. Doane has been retained to provide an independent third party opinion of market value of the Agricultural Properties.

ADDITIONAL INFORMATION

The Partnership has filed with the Securities and Exchange Commission in Washington, D.C., a Registration Statement under the Securities Act of 1933, with respect to the securities offered hereby. This Prospectus omits certain of the information contained in the Registration Statement, and reference is made to the Registration Statement and the exhibits thereto for further information with respect to the Partnership, the Units, and the transactions to which this Prospectus relates. Statements contained herein concerning the provisions of any documents are not necessarily complete, and, in each case, reference is made to the copy of each document filed as an exhibit to the Registration Statement. Each such statement is qualified in its entirety by such reference. Items of information omitted from this Prospectus but contained in the Registration Statement are available for inspection without charge at the public reference facilities of the Commission at 450 Fifth Street, NW, Washington, D.C. 20549. Copies of all or any of such items may be obtained from the Commission upon payment of the fees prescribed by the Commission by writing to it at 450 Fifth Street, NW, Washington, D.C. 20549.

TABLE I

Property Number	County and State of Agricultural Property	Exchange Value (Dollars)	Size and Type of Buildings and Equipment	Size of Parcel (Acre)

[TO BE PROVIDED IN FINAL PROSPECTUS]

TABLE II

Property Number	Indebtedness	Interest Rate	Periodic Payment (Principal and Interest)	Maturity	Balloon on Maturity

[TO BE PROVIDED IN FINAL PROSPECTUS]

PRO FORMA FINANCIAL STATEMENTS

[to be included in the Final Properties]

EXHIBITS

A. Summary Market Value Estimates as Determined by Doane Farm Management Company

B. Limited Partnership Agreement

C. Schedule of Additional Documents Available for Inspection

D. Opinion of McDermott, Will & Emery

E. Valuation Request

Summary Market Value Estimates
as Prepared by
Doane Farm Management Company

Exhibit A

Property Identification	Size of Property	Use of Property	Date of Valuation	Estimated Fair Market Value

Exhibit B

CONSOLIDATED FAMILY FARMS

LIMITED PARTNERSHIP AGREEMENT

This Limited Partnership Agreement (the "Agreement") dated as of __________, 1984 is made by and among Farm Management Company of America as the general partner (the "General Partner") and CFF Realtors and the persons listed on Exhibit A hereto as Limited Partners, and all other parties who shall become partners of this limited partnership as hereinafter provided.

ARTICLE I

Certain Definitions

For purposes of this Agreement, the following terms shall have the following meanings:

1.1 "Administrative Services Agreement" means the agreement the Partnership has entered into with The Professionals, Inc. to provide certain administrative and investment advisory services to the Partnership.

1.2 "Advisory Board" means the Persons designated to advise the General Partner on the management of the Partnership pursuant to Article V.

1.3 "Affiliate" of a person means any Person who controls, is controlled by or is under common control with such other Person.

1.4 "Allocable Share" of a Limited Partner or Assignee, at any particular time, means the percentage which the number of Limited Partners' Units held by such Limited Partner or Assignee is of the total Limited Partners' Units held by all Limited Partners and Assignees at such time.

1.5 "Assignee" means a Person to whom one or more Limited Partners' Units have been assigned by transfer of a Depositary Unit on the books of the Depositary or transfer by reason of death or operation of law, and who has not become a Substituted Limited Partner, and who by such assignment has an interest in the Partnership equivalent to that of a Limited Partner but (a) limited to the rights and obligations appurtenant to a Limited Partner's Unit to share in income, gains, losses, deductions, credits, tax preference items and distributions, including liquidating distributions, (b) with no right to obtain any information regarding Partnership transactions, to inspect the Partnership books or to vote on any matter on which a Limited Partner is entitled to vote, and (c) otherwise subject to the limitations under the Illinois Uniform Limited Partnership Act on the rights of an Assignee who has not become a Substituted Limited Partner.

1.6 "Capital" means the aggregate of all contributions made by all Partners to the Partnership.

1.7 "Cash Flow" means all cash receipts of the Partnership derived from its business operations reduced by the sum of (a) all expenses and amortization of debt of the Partnership; (b) other expenditures deemed appropriate by the General Partner determined in accordance with generally accepted accounting principles; and (c) such reserves as the General Partner deems necessary to the proper operation of and/or protection of the Partnership's business and assets.

1.8 "Cash Available for Distribution" means the excess of cash held by the Partnership (including without limitation proceeds of borrowings and reductions in reserves previously established) over (i) cash required for all cash expenses, liabilities and obligations of the Partnership (whether for expense items, capital expenditures, retirement of indebtedness or otherwise) and (ii) cash reserves as established for Partnership operations or contingencies, known or unknown, including liabilities which may be incurred in litigation and liabilities undertaken pursuant to the indemnification provisions of this Agreement.

1.9 "Certificate" means the Certificate of Limited Partnership, as amended, required to be filed by the Partnership pursuant to the laws of the State of Illinois.

1.10 "Consent of the Limited Partners" means the consent of the holders of at least fifty percent (50%) of the Limited Partners' Units.

1.11 "Contribution" means the contribution of each Partner made to the Capital of the Partnership in accordance with Article VII of this Agreement.

1.12 Costs and Expenses of the Exchange Offer" means all of the following costs and expenses incurred by or on behalf of the Partnership with respect to the Exchange Offer: filing fees required by the Securities Act of 1933, filing and examination fees required by any applicable states securities laws or regulations, expenses for printing the registration statement and prospectus, expenses incident to the valuation of Property Interests (in excess of those covered by owners' deposits) legal and accounting fees relating to the structuring of the Exchange Offer (but not those which relate to the organization of the Partnership, the closing (i.e., the transfer of Property Interests) of the Exchange Offer or the establishment of the opening accounts of the Partnership), attorneys' fees for opinions of counsel as to the legality of the Partnership and investment therein under applicable state and local laws, fees and expenses of the exchange agent and the escrow agent, all costs and expenses of office personnel, travel, supplies, telephones and the operating costs of the General Partner prior to the closing of the Exchange Offer.

1.13 "Depositary" means   and Trust Company of Chicago or any successor to it as Depositary under the Depositary Agreement.

1.14 "Depositary Agreement" means the agreement to be entered into between the Partnership and the Depositary, as it may be amended or supplemented from time to time.

1.15 "Depositary Receipt" means a depositary receipt, issued by the Depositary in accordance with the Depositary Agreement, evidencing ownership of one or more Depositary Units.

1.16 "Depositary Unit" means a unit of ownership representing a Limited Partner's Unit evidenced by a certificate on deposit with the Depositary pursuant to the Depositary Agreement.

1.17 "Distributions" means distributions of cash or other property made by the Partnership from any source.

1.18 "Exchange Offer" means the Partnership's offer to exchange Depositary Units for Property Interests.

1.19. "Foreign Business" means a corporation incorporated under the laws of a foreign country, or a business entity whether or not incorporated, in which a majority interest is owned directly or indirectly by Nonresident Aliens.

1.20. "Foreign Government" means a government other than the government of the United States, its states, territories or possessions.

1.21 "General Partner" means Farm Management Company of America.

1.22 "General Partner's Unit" means a unit of general partnership interest in the Partnership.

1.23 "Limited Partner" means CFF Realtors, the Persons listed on Exhibit A hereto and all Substituted Limited Partners.

1.24 "Limited Partner's Unit" means a unit of limited partnership interest in the Partnership issued pursuant to Article VII.

1.25. Management Agreement" means the agreement the Partnership has entered into with CFF Management Corporation, to provide day-to-day management, record-keeping, supervision, development and financial services to the Partnership.

1.26 "Net Income" means the net income of the Partnership as reported for United States federal income tax purposes, as determined on the accrual method, including, without limitation, each item of Partnership income, gain, loss or deduction.

1.27 "Net Loss" or "Net Losses" means the net loss of the Partnership as reported for United States federal income tax purposes, as determined on the accrual method, including, without limitation, each item of Partnership income, gain, loss or deduction.

1.28 "Nonresident Alien" means an individual who is not a citizen of the United States and who has not been classified as a permanent resident alien by the United States Immigration and Naturalization Service.

1.29 "Partner" means a General Partner or a Limited Partner.

1.30 "Partnership" means the limited partnership created pursuant to this Agreement.

1.31 "Partnership Business" means the business in which the Partnership proposes to engage, as follows:

A. To acquire initially through the Exchange Offer, the following "Property Interests:"

1. direct interests, including fee ownership and contract purchase interests, in land, buildings and equipment used or usable for the production of agricultural commodities, particularly the production of grainbearing crops, and for the processing, storage and distribution of agricultural products ("Agricultural Properties") and in stored feed and grain, particularly corn, wheat, milo and soybeans, growing crops, supplies and livestock;

2. interests in mortgages and other indebtedness encumbering such Agricultural Properties;

3. interests in minerals in, on or under such Agricultural Properties;

4. indirect interests in the form of interests in partnerships, corporations, trusts and other entities substantially all of the assets of which consist of Agricultural Properties or interests therein; and

B. To manage, hold and dispose of the acquired Property Interests, including to engage in, conduct and carry on farming, agriculture and agribusiness operations and to irrigate, plant, cultivate, grow, produce, harvest, process, deal in, sell, realize upon and dispose of corn, wheat, milo, soybeans, alfalfa, barley, seeds, grains, cereals, feeds, fodder, hay, grasses and other farm and related products; to purchase, lease, acquire, own, hold, develop, maintain, improve and operate pastures, farms, wood lots, ponds, lands and real property of all kinds and any rights, interests or claims therein or thereto; to build, purchase, lease, acquire, own, hold improve, equip, use, occupy, maintain, manage and operate buildings, structures, works, office improvements and properties of all kinds; and to manufacture, purchase, acquire, own, hold, use, maintain, repair, improve, deal in, sell, realize upon and dispose of any articles, materials, tools, machinery, equipment and property.

1.32 "Person" means an individual, partnership, joint venture, association, corporation, trust company or trust.

1.33 "Request and Power" means a request for admission as a Substituted Limited Partner, an agreement to be bound by the terms of this Agreement and a power of attorney in such forms as are approved by the Partnership.

1.34 "Substituted Limited Partner" means a Person admitted to the Partnership as a substituted limited partner pursuant to Article XIII.

1.35 "Tax Credits" means credits against tax allowed under the Internal Revenue Code of 1954, as amended from time to time, including investment tax credits, and credits allowable to Partners under state taxing statutes.

1.36 "Unit" means a General Partner's Unit or a Limited Partner's Unit, and "Units" means all the General Partner's Units and all the Limited Partners' Units.

ARTICLE II

Formation of the Partnership

2.1 Formation. The General Partner, CFF Realtors and the Persons listed on Exhibit A hereto hereby form a limited partnership under the Illinois Uniform Limited Partnership Act.

2.2 Partnership Name. The name of the Partnership is "Consolidated Family Farms" or such other name as the General Partner from time to time deems advisable. The business of the Partnership may be conducted under such other names as may be required by states in which the Partnership may do business.

2.3 Purpose of the Partnership. The purpose of the Partnership shall be:

(a) To engage in the Partnership Business (either directly or indirectly as a security holder in one or more corporations, trusts or partnerships or as a trustee or general partner) and to acquire, distribute, operate, manage, mortgage, sell, lease, exchange or otherwise deal with and dispose of any property and other assets which the General Partner deems advisable in the operation of the Partnership Business or any part thereof.

(b) To issue instruments and evidences of indebtedness in connection with the operation of the Partnership Business or any part thereof and to secure the payment thereof and any interest thereon by mortgage, pledge, transfer or assignment in trust of all or any part of the property and assets of the Partnership.

(c) To make, enter into, deliver and perform all contracts, agreements and undertakings, pay all costs and expenses and do all such other acts and things as the General Partner may deem necessary or advisable to carry out the foregoing objectives and purposes.

2.4 Principal Place of Business. The principal place of business of the Partnership shall be at 505 North Lake Shore Drive, Suite 208, Chicago, Illinois 60611, but the General Partner may substitute or establish such other place or places of business for the Partnership (within or without the State of Illinois) as may be necessary or appropriate.

2.5 Term of Partnership. The Partnership shall commence on the date that the Certificate has been filed in accordance with the provisions of the Illinois Uniform Limited Partnership Act and shall continue until the

Partnership is dissolved pursuant to Article XIV or until June 30, 2015, unless such term is extended by the General Partner upon the affirmative vote of the holders of more than eighty percent (80%) of the Limited Partners' Units held by Limited Partners of record.

ARTICLE III

The General Partner

3.1 General. The General Partner shall devote such time and attention to the business of the Partnership as may be reasonably necessary to the conduct of such business. However, it is anticipated that the General Partner may enter into agreements with affiliates of the General Partner or other persons for the provision of management, investment advisory and administrative services. The General Partner shall have full, exclusive and complete discretion in the management and control of the business of the Partnership for the purposes herein stated, shall have the power to make all decisions affecting the business of the Partnership and may take such actions as it may deem to be in the best interests of the Partnership, the Partners and the Assignees and to accomplish the purposes of the Partnership, including but not limited to the following:

(a) to manage the Agricultural Properties in accordance with sound business practice, and in connection therewith to engage in all of the activities related thereto, including the maintenance of Partnership land, buildings and equipment and to generally engage in such other actions as the Managing Partners may deem necessary or desirable to take in connection with the Agricultural Properties with a view toward their proper management while they are owned by the Partnership;

(b) to hold title to any Agricultural Property on behalf of the Partnership in order to preserve the limited liability of the Limited Partners or for convenience in dealing with such title or for any other legitimate purpose;

(c) to purchase, sell and otherwise deal in any interests or rights in personalty and any interests or rights in real property, including, without limiting the generality of the foregoing, the powers to sell, exchange, mortgage, pledge, convey in trust, enter into joint ventures or partnerships respecting or otherwise hypothecate all or any portion of the Agricultural Properties and any other Partnership property;

(d) to let or lease Partnership property for any period, and for any purpose;

(e) to apply proceeds of any sale, exchange, mortgage, pledge or other disposition of Partnership property to payment of liabilities of the Partnership and to pay, collect, compromise, arbitrate, or otherwise adjust any and all other claims or demands of or against the Partnership or to hold such proceeds against the payment of Partnership liabilities;

(f) to maintain complete and accurate business records and accounts of all Partnership operations, make all filings and reports required under applicable rules and regulations of the Securities and Exchange Commission and any securities exchange and furnish the Partners with necessary United States federal, state or local income tax reporting information as is available to the Partnership;

(g) to purchase and maintain, at the expense of the Partnership, liability and other insurance sufficient to protect the Partnership, the General Partner and each partner in the General Partner from those liabilities and hazards which may be insured against in the conduct of the Partnership's business;

(h) to make, execute, assign, acknowledge and file on behalf of the Partnership or each Limited Partner, any and all documents or instruments of any kind which the General Partner may deem appropriate in carrying out the purposes and business of the Partnership, including, without limitation, leases, subleases, operating agreements, employment agreements, management contracts, guarantees, powers of attorney, sales contracts, deeds, options, loan obligations, mortgages, deeds of trust, notes, documents or instruments of any kind or character, or amendments thereto; any person, firm or corporation dealing with the General Partner shall not be required to determine or inquire into the authority and power of the General Partner to bind the Partnership and to execute, acknowledge and deliver any and all documents in connection therewith;

(i) to borrow money or to obtain credit in such amounts, on such terms and conditions, and at such rates as the General Partner deems appropriate, from banks, other lending institutions and any other Person (including Persons which may be Affiliates of the General Partner) for any Partnership purpose; and in connection with such loans to mortgage, pledge, assign or otherwise encumber or alienate any or all Partnership property, including any income therefrom, to secure or provide repayment thereof; as between the Partnership and any lender it shall be conclusively presumed that the proceeds of such loans are to be and will be used for the purposes authorized herein and that the General Partner has the full power and authority to borrow such money and to obtain such credit;

(j) to invest temporarily Partnership funds, pending disbursement, in investment grade obligations issued or guaranteed by the United States Government or any state or municipal government or instrumentality thereof, bank time deposits, commercial paper, bankers' acceptances and other interest-bearing obligations;

(k) to make any election on behalf of the Partnership as is or may be permitted under the Internal Revenue Code of 1954 or state or local tax statutes including but not limited to an election under §754 of the Code, as the same may be amended from time to time, and to supervise the preparation and filing of all tax and information returns which the Partnership may be required to file;

(l) to employ and engage agents and others (including Persons which may be Affiliates of the General Partner) to carry out any activities which the General Partner is authorized or required to carry out or conduct under this Agreement, including without limitation, a management company which may be engaged to undertake some or all of the general property management, an accounting or other service company which may be engaged to undertake some or all of the financial accounting and record keeping and supervisory duties of the General Partner and to an investment advisory company which may be engaged to undertake some of the investment duties of the General Partner, and to cause the Partnership to indemnify such Persons against liabilities incurred by them in acting in such capacities on behalf of the Partnership;

(m) to enter into an agreement or agreements with appraisers, real estate brokers or agents, investment banking firms or others (including Persons which may be Affiliates of the General Partner) providing for the engagement of such Persons on an exclusive or nonexclusive basis to advise or represent the Partnership in its operations and the valuation, sale, lease or other dealings in Partnership property, it being understood that the General Partner shall not be responsible for the acts and omissions of any such Persons and shall assume no obligations in connection therewith other than the obligation to use due care in the selection thereof;

(n) to enter into agreements for the listing of Depositary Receipts on securities exchanges or with the National Association of Securities Dealers, to enter into agreements with depositaries, transfer agents and registrars for the Depositary Receipts, and to take such further actions with regard to the foregoing as may be necessary or convenient;

(o) to transfer all or any portion of the assets of the Partnership to other partnerships (whether formed by the Partnership or otherwise) in which the Partnership will be or become a general or limited partner ("Operating Companies");

(p) to form one or more partnerships, of which it may be a partner, to serve as a partner of one or more Operating Companies;

(q) to possess and exercise any additional powers and rights of general partners in a limited partnership, without limitation, under the partnership laws of Illinois, to the extent not inconsistent with this Agreement; and

(r) to do any and all acts and conduct all proceedings and execute all rights and privileges, although not specifically mentioned in this Agreement, that the General Partner may deem necessary or appropriate to conduct the Partnership Business or to carry out the purposes of the Partnership.

3.2 Conflicts of Interest. The General Partner shall devote such time to the Partnership and its business as shall be necessary to conduct the Partnership business and to operate and manage the Partnership in an efficient manner. Neither the General Partner nor any partner in the General Partner shall be required to devote its full time and resources to the business of the Partnership and may, without accountability to the Partnership or to any of the Partners and without any consent whatsoever, engage, directly or indirectly, in any other business venture or ventures of any nature and description, independently or with others, including, without limitation, the ownership, management, financing, syndication and development of other business similar to Partnership Business, irrespective of whether such business shall be competitive with the Partnership or otherwise, and neither the Partnership nor any of the other Partners shall have any right in and to any such business ventures or the income or profits derived therefrom by virtue of this Agreement. The General Partner and any affiliate of the General Partner may engage in transactions with the Partnership, provided such transactions are in the best interests of the Partnership and are approved by the conflicts committee of the Advisory Board as provided herein.

3.3 Payment of Expenses. The General Partner has contributed or will contribute capital to the Partnership as set forth in Article 7.1 and shall arrange for funds to be provided to the Partnership as necessary to pay the anticipated Costs and Expenses of the Exchange Offer. Costs and Expenses of the Exchange Offer shall not include any "Organizational and Closing Costs," including the following: fees and expenses of the Depositary Agent; costs of title insurance or title abstracts; costs of printing and engraving Depositary Receipts; sales and transfer taxes; recording fees; and other costs or expenses normally incident to the closing of a sale of Agricultural Properties or other Property Interests. All of such Organizational and Closing Costs shall be borne by the Partnership and, to the extent paid by the General Partner, shall be reimbursed to the General Partner by the Partnership.

3.4 Liability of the General Partner. The General Partner shall be liable to the Partnership and the Limited Partners and Assignees for willful misconduct or gross negligence, but shall not be liable to any of them for errors in judgment or for any acts or omissions that do not constitute willful misconduct or gross negligence.

3.5 Indemnification of the General Partner.

(a) The General Partner (and each of its partners) shall be indemnified and held harmless by the Partnership to the full extent permitted by law from and against any and all losses, claims, damages, liabilities (including liabilities under the Securities Act of 1933, as amended), expenses (including legal expenses), judgments, fines, settlements, and other amounts arising from any and all claims, costs, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, in which it or its directors, officers, employees or partners acting in such capacity may be involved or threatened to be involved, as a party or otherwise by reason of its status as General Partner (or as a partner in the General Partner) or its management of the affairs of the Partnership, or which relate in any way to the Partnership, its property, business, management, organization or affairs, whether or not it continues to be the General Partner (or a partner in the General Partner) at the time any such liability or expense is paid or incurred. The General Partner (and each of its partners) shall also be indemnified and held harmless by the Partnership to the full extent permitted by law for any over-distribution of Partnership assets to Partners and Assignees, if such over-distribution is made in good faith.

(b) No Person shall be entitled to indemnification under this Article 3.5 with respect to any claim, issue or matter in which it has been finally adjudged liable by a court of competent jurisdiction for willful misconduct or gross negligence unless the court in which such action was brought, or other court of competent jurisdiction, should finally determine upon application that, despite such adjudication of liability, in view of all circumstances of the case, the Person is fairly and equitably entitled to partial or complete indemnification for such liabilities and expenses as such court shall deem proper.

(c) Expenses (including attorneys' fees) incurred in defending any proceeding may be paid by the Partnership in advance of the final disposition of such proceeding upon receipt of any undertaking by or on behalf of the indemnified Person to repay such amount if it shall ultimately be determined by a court of competent jurisdiction that the indemnified Person is not entitled to be indemnified by the Partnership.

(d) The indemnification provided by this Article 3.5 shall be in addition to any other rights to which those indemnified may be entitled under any agreement as a matter of law or otherwise, both as to action in the General Partner's capacity as such and to action in another capacity and shall continue as to the successors in interest of the General Partner.

(e) The Partnership may purchase and maintain insurance on behalf of the General Partner (and each partner in the General Partner) against any liabilities or expenses of the General Partner (and each partner in the General Partner) in connection with Partnership activities whether or not the Partnership would have the power to indemnify the General Partner (and each partner in the General Partner) against such liabilities or expenses under the provisions of this Agreement. Such insurance may be in such amount as the General Partner (and each partner in the General Partner) determines is sufficient to protect the General Partner (and each partner in the General Partner) from the maximum amount of such liabilities and expenses.

3.6 Filing of Returns and Other Reports. The General Partner shall be the tax matters partner and as such shall cause the preparation and timely filing of all Partnership tax returns, and shall on behalf of the Partnership make such tax elections and determinations as appear to be appropriate, and is hereby authorized to act on behalf of the Partnership and its Partners in connection with any adjustment or proposed adjustment to Partnership tax status and, in addition, shall timely file all other reports or forms required by any government authority having jurisdiction to require such filing.

3.7 Limitation on Return of Limited Partners' Capital. The Limited Partners shall look solely to the assets of the Partnership for the return of the Limited Partners' Capital and if the assets of the Partnership remaining after payment or discharge of the debts and liabilities of the Partnership are insufficient to return such Limited Partners' Capital, they shall have no recourse against any General Partner or any Limited Partner for such purpose.

3.8 Other Matters Concerning the General Partner.

(a) The General Partner may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture or other paper or documents believed by it to be genuine and to have been signed or presented by the proper party or parties.

(b) The General Partner may consult with counsel, accountants and appraisers selected with reasonable care (who may be counsel, accountants or appraisers for the Partnership) and any opinion of such counsel, accountants or appraisers shall be full and complete authorization and protection in respect to any action taken or suffered or omitted by the General Partner hereunder in good faith and in accordance with such opinion.

(c) The General Partner may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents (including Persons which may be Affiliates of the General Partner), and the General Partner shall not be responsible for any misconduct or negligence on the part of any agent (including Persons which may be Affiliates of the General Partner) appointed with due care hereunder.

ARTICLE IV

Reimbursement of the General Partner

Partnership Expenses; Reimbursement. Subject to Article 3.3, the Partnership shall pay all expenses, disbursements and advances reasonably incurred in connection with the organization of the Partnership and the conduct of Partnership Business, including, without limitation, office expenses, secretarial expenses and expenses for entertainment, travel and similar items and the General Partner shall be promptly reimbursed by the Partnership for any such items paid by the General Partner.

ARTICLE V

Advisory Board

5.1 Board Members. The Advisory Board of the Partnership will consist of not less than six and not more than fourteen members, with at least three members designated by the General Partner and at least three members elected by Limited Partners. The General Partner shall from time to time designate the number of members to be designated by the General Partner and the number of members to be elected by the Limited Partners. The General may select the initial representatives of the Limited Partners. Thereafter the representatives of the Limited Partners will be elected by the affirmative vote of the holders of more than fifty percent (50%) of the Limited Partners' Units held by Limited Partners of record (other than the General Partner or its Affiliates if such Persons are also Limited Partners). The initial representatives of the Limited Partners shall serve for staggered terms, so that some members will initially serve for one years, others for two years and others for three years, as determined by the General Partner. Thereafter, each of the members elected by the Limited Partners shall serve a three-year term.

5.2 Compensation. Members of the Advisory Board who are Affiliates of the General Partner will not be compensated for service on the Board, but will be reimbursed for actual expenses in attending meetings of the Board. The General Partner may from time to time cause the Partnership to compensate members of the Advisory Board who are not Affiliates of the General Partner, for service on the Board.

5.3 Meetings. The Advisory Board shall hold regular meetings at least annually, at the principal office of the Partnership or at some other location designated by the General Partner, at such times as may be designated by the General Partner. One-half (1/2) of the members of the Advisory Board shall constitute a quorum. Action taken by a majority of the members present at a meeting at which a quorum is present shall constitute an act of the Advisory Board.

5.4 Duties. The Advisory Board shall review the results of operations of the Partnership and make recommendations to the General Partner, which recommendations shall be given due consideration by the General Partner.

5.5 Conflicts Committee. The Advisory Board shall designate a Conflicts Committee, which will consist of two or more members of the Advisory Board who are not Affiliates of the General Partner. The Conflicts Committee shall review any transaction between the Partnership and the General Partner or any Affiliate of the General Partner, and any transaction affecting the Partnership in which the General Partner or an Affiliate of the General Partner has an interest in order to insure that any such transaction is in the best interests of the Partnership. The Partnership shall not enter into any transaction with the General Partner or an Affiliate of the General Partner which has been determined by the Conflicts Committee to not be in the best interests of the Partnership. One-half of the entire committee shall constitute a quorum for the transaction of business by the committee. Action taken by a majority of the members of the committee present at a meeting at which a quorum is present shall constitute an act of the Committee. Notwithstanding the foregoing, no approval by the Conflicts Committee shall be required with respect to the Management Agreement and Administrative Services Agreement and any renewals thereof (so long as at the time of such renewal the party contracting with the Partnership is not in default thereunder), which agreements, and any renewals thereof, are hereby expressly authorized and approved.

ARTICLE VI

The Limited Partners

6.1 Limited Liability. No Limited Partner or Assignee (unless such Limited Partner is the General Partner) shall be personally liable for any of the debts of the Partnership or for any Net Losses beyond the amount of his Contribution to the Partnership and any Net Income allocable to such Limited Partner which has not yet been distributed. Further, each Limited Partner receiving distributions which represent a return of his Contribution will be liable to return such distributions to the extent necessary to discharge Partnership liabilities to creditors who extended credit or whose claims arose before such distributions were made.

6.2 Restrictions on Limited Partners.

(a) No Limited Partner as such shall have the right to participate in the management and control of the business of the Partnership, or to transact any business for the Partnership. No Limited Partner as such shall have the power to represent, sign for or bind the General Partner or the Partnership.

(b) A Limited Partner shall have no right to withdraw from the Partnership or to demand and receive the return of his Contribution to the Partnership.

(c) A Limited Partner shall have no right to demand and receive specific property or cash in return for his Contribution.

(d) There shall exist no priorities as between the Limited Partners.

(e) Subject to the provisions of Article 12.3, if a Limited Partner shall die, his executors or administrators, successors or assigns, or if he shall become incompetent, bankrupt, insolvent or dissolved, his guardian or other representative, shall have the same rights as the Limited Partner would have had had he not died or become incompetent, bankrupt or insolvent, and the share of such Limited Partner in the assets of the Partnership shall, until the termination of the Partnership, be subject to all the terms and conditions of this Agreement as if such Limited Partner had not died or become incompetent, bankrupt or insolvent.

6.3 Non-Resident Aliens as Limited Partners. Persons to whom Depositary Units are transferred, other than Persons who receive Limited Partners' Units in consideration for the contribution of Property Interests to the Partnership pursuant to Section 7.2, who or which are Nonresident Aliens, Foreign Businesses or Foreign Governments may not become Limited Partners.

6.4 Voting of Units. Each Limited Partner shall be entitled to one vote for each Limited Partners' Unit held upon each matter submitted to a vote of the Limited Partners.

ARTICLE VII

Capital Contributions

7.1 General Partner. The Contribution of the General Partner is the payment on behalf of the Partnership of all Costs and Expenses of the Exchange Offer, for which the General Partner is entitled to 70,000 (subject to adjustment) General Partner's Units.

7.2 Limited Partners. The Contribution of CFF Realtors is $10,000, for which CFF Realtors is entitled to 30,000 (subject to adjustment) Limited Partners' Units. Each of the other Limited Partners will contribute Property Interests and will receive Limited Partners' Units, in the amount indicated next to such Partner's name on the schedule of Limited Partners annexed hereto as Exhibit A.

7.3 Conversion of Units. Each General Partner's Unit may be converted into one Limited Partners' Unit at the sole option of the General Partner. Upon request of the General Partner, the Partnership shall convert such Units and cause to be issued a new certificate evidencing ownership of Limited Partners' Units in the name of the General Partner (or such Person as designated by the General Partner) and shall issue to the General Partner a certificate designating the number of General Partner's Units which the General Partner continues to own. Upon deposit of such certificate representing Limited Partners' Units with the Depositary, the General Partner (or such Person as designated by the General Partner) shall be entitled to receipt of one or more Depositary Receipts evidencing ownership of Depositary Units equaling the number of Limited Partners' Units deposited. The General Partner (or such Person as designated by the General Partner) shall be treated as a Limited Partner with respect to any Limited Partners' Units held by it.

Any conversion of General Partner's Units into Limited Partners' Units shall be subject to the following limitations:

> (i) Immediately after such conversion, the number of General Partner's Units remaining shall be at least equal to a number equal to the product of one percent (1%) and the sum of the number of General Partner's Units remaining after such conversion and the number of Limited Partners' Units existing after such conversion (including all Limited Partners' Units held by the General Partner).
>
> (ii) Any conversion shall become effective thirty (30) days after the Partnership receives a written notice of the General Partner's intention to convert a specified

number of General Partner's Units into Limited Partners' Units.

7.4 Recapitalization. The General Partner may recapitalize the Partnership (i.e., combine or split interests in the Partnership into a lesser or greater number) it it deems such action appropriate.

ARTICLE VIII

Allocation of Net Income, Net Losses and Tax Credits

8.1 General Allocation. Net Income, Net Losses and Tax Credits for each month shall be determined by the Partnership and shall be allocable as follows:

(a) To the Limited Partners and Assignees, as a group, an amount equal to the amount of such Net Income, Net Losses, and Tax Credits, as the case may be, multiplied by a fraction, the numerator of which is the number of Limited Partners' Units and the denominator of which is the sum of the number of General Partner's Units and the number of Limited Partners' Units; and

(b) To the General Partner an amount equal to the amount of such Net Income, Net Losses and Tax Credits, as the case may be, multiplied by a fraction, the numerator of which is the number of General Partner's Units and the denominator of which is the sum of the number of General Partner's Units and the number of Limited Partners' Units.

8.2 Allocation Among Limited Partners and Assignees.

(a) Amounts allocated to Limited Partners and Assignees, as a group (including the General Partner to the extent that it holds Limited Partners' Units), shall be allocated among the Limited Partners and Assignees (including the General Partner to the extent that it holds Limited Partners' Units) in accordance with the Allocable Share of each.

(b) If a Depositary Unit representing a Limited Partners' Unit is transferred during a calendar month, all items referred to in Article 8.1 to the extent allocable to such month with respect to the Depositary Unit so transferred shall be allocated pro rata to the transferor and the transferee according to the number of days in such month the Depository Unit was held by each of them.

8.3 Repurchase of Units. If the General Partner determines in its sole discretion that it is in the best interests of the Partnership, Partners or Assignees, the General Partner may use all or any portion of the Cash Available for Distribution or other assets to acquire Limited Partners' Units either through purchases on a public market if a public market for Limited Partners' Units or Depositary Units develops, through privately negotiated purchases, by tender or otherwise. Any Limited Partners' Units or Depositary Units so acquired will be deemed cancelled. Any payments made hereunder in liquidation of a Limited Partner's interest in the Partnership shall be treated for Federal income tax purposes to the extent possible as payments made in exchange for such Limited Partner's interest in the Partnership pursuant to Section 736(b) of the Internal Revenue Code of 1954.

ARTICLE IX

Distributions

9.1 Time and Amount of Distributions. At any time that the General Partner deems appropriate in its sole discretion, all or any portion of the cash of the Partnership which the General Partner deems not needed in respect of the business of the Partnership or as a reserve for contingent liabilities may be distributed to the Partners of record on the record date set for the distribution. Such distribution shall be allocated as follows:

(a) to the Limited Partners and Assignees, as a group, an amount equal to the amount of such distribution, multiplied by a fraction, the numerator of which is the number of Limited Partners' Units and the denominator of which is the sum of the number of General Partners' Units and the number of Limited Partners' Units; and

(b) to the General Partners an amount equal to the amount of such distribution, multiplied by a fraction, the numerator of which is the number of General Partner's Units, and the denominator of which is the sum of the number of General Partner's Units and the number of Limited Partners' Units.

9.2 Allocation Among Limited Partners and Assignees. Amounts allocated to Limited Partners and Assignees, as a group (including the General Partner, to the extent that it holds Limited Partners' Units), shall be allocated among the Limited Partners and Assignees (including the General Partner, to the extent that it holds Limited Partners' Units) in accordance with the Allocable Share of each on the record date for such distribution.

ARTICLE X

Accounting and Reports

10.1 Fiscal Year and Method of Accounting. The fiscal year of the Partnership shall be the calendar year unless the General Partner elects to adopt a different fiscal year. All amounts computed for the purposes of this Agreement and all applicable questions concerning the rights of Partners shall be determined using the accrual method of accounting and the provisions of the Internal Revenue Code of 1954, as amended. In addition, financial statements of the Partnership shall be prepared in accordance with generally accepted accounting principles for the purpose of making any reports to the Securities and Exchange Commission and to Limited Partners as required by the Commission.

10.2 Reports. The General Partner shall prepare and furnish within 75 days after the close of the Partnership's fiscal year to each Person who was the holder of record of a Depositary Unit during such year the information reasonably available to the Partnership as may be necessary for the preparation of such Person's United States federal income tax return and any United States or state income tax returns required of such Person as a result of the operations of the Partnership, provided that if the Partnership makes a Section 754 election, the Partnership's ability to provide such information may depend on information to be supplied to the Partnership by such Person.

10.3 Books and Records. The General Partner shall maintain all records necessary for documenting and reporting the Partnership Business and affairs of the Partnership. Such books and records of the Partnership may be maintained in Chicago, Illinois or in such other place as the General Partner may decide.

10.4 Bank Accounts. The Partnership shall establish and maintain accounts in financial institutions (including national or state banks, trust companies, or savings and loan institutions) in such amounts as the General Partner may deem necessary or convenient. Checks shall be drawn on and withdrawals of funds shall be made from any such accounts for Partnership purposes and shall be signed by the Person or Persons designated by the General Partner.

ARTICLE XI

Issuance, Deposit and Withdrawal of Limited Partners' Units

11.1 Deposit of Original Certificates. The Partnership will issue a certificate representing the aggregate number of Limited Partners' Units and deposit such certificate with the Depositary to be held in accordance with the Depositary Agreement, together with a list containing the name, address and, if available, tax identification number of each Limited Partner and the number of Limited Partners' Units to which each Limited Partner is entitled.

11.2 Issuance of Depositary Receipts. Upon the deposit of the certificate evidencing the Limited Partners' Units in accordance with Article 11.1 hereof, the Depositary will, in accordance with the Depositary Agreement, issue to each Limited Partner named in the list accompanying such certificate one or more Depositary Receipts evidencing the ownership of a number of Depositary Units equal to the number of Limited Partners' Units assigned to such Assignee.

11.3 Maintenance of Transfer Records. In accordance with the Depositary Agreement, the Depositary and the Partnership's registrar and transfer agent (all of whom may be the same Person) will maintain records reflecting the Depositary Receipts registered in the name of each Limited Partner and any subsequent transfers of Depositary Units to Substituted Limited Partners pursuant to Articles XII and XIII hereof and withdrawals of Depositary Units by Limited Partners pursuant to section 11.4 hereof, and records reflecting the admission of Substituted Limited Partners.

11.4 Withdrawal of Certificates by Limited Partners. Upon the written request of any Limited Partner or any Assignee who has properly executed and submitted a Request and Power, accompanied by a surrendered Depositary Receipt and payment of what the Partnership expects to be the reasonable costs of such withdrawal, the Partnership will direct the Depositary to record the withdrawal from deposit of the number of Depositary Units evidenced by such Depositary Receipt and will cause to be issued to such Limited Partner a certificate or certificates in the name of such Limited Partner evidencing the same number of Limited Partners' Units. A Limited Partner may redeposit any such Certificate and the Limited Partners' Units evidenced thereby with the Depositary upon sixty (60) days' prior written notice to the Depositary, whereupon the Depositary will issue to such Limited Partner a Depositary Receipt or Receipts evidencing the same number of Depositary Units as Limited Partners' Units so deposited.

ARTICLE XII

Transfer of Interests

12.1 Transfer.

(a) The term "transfer" when used in this Article with respect to a General Partner's Unit or Limited Partners' Unit includes a sale, assignment, gift, exchange, or any other disposition.

(b) The General Partner's Units are nontransferable.

(c) No Limited Partners' Units shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article and Article XIII hereof. Any transfer or purported transfer of any Limited Partners' Unit not made in accordance with this Article or Article XIII hereof shall not be recognized by the Partnership.

12.2 Nontransferability of Limited Partner's Units. If a Limited Partner has withdrawn a certificate representing his Limited Partners' Units from deposit and has not redeposited such certificate as provided in the Depositary Agreement and Section 11.4 of this Agreement, no transfer of his Limited Partners' Units shall be recognized by the Partnership except a transfer by reason of his death or operation of law, made in accordance with the restrictions on transfers set forth in this Article.

12.3 Transfer of Depositary Units.

(a) So long as the Partnership is subject to any law of the United States or any state therein which restricts land ownership by Nonresident Aliens, Foreign Businesses or Foreign Governments, the aggregate interest in the Partnership owned, directly or indirectly, by Nonresident Aliens, Foreign Businesses or Foreign Governments or by agents, trustees, or fiduciaries of such persons or entities may not be greater than 50%. If a transferee of Units is a Nonresident Alien, Foreign Business or Foreign Government or an agent, trustee or fiduciary of such a person or entity and the transfer would result in a violation of this provision, the transfer agent shall not make the transfer and shall notify the Partnership and the transferor. Further, if it is determined at any time that a transfer has resulted in ownership of more than 50% of the interests in the Partnership by Nonresident Aliens, Foreign Businesses and Foreign Governments and agents, trustees or fiduciaires of such persons and entities, the holder of the Units which resulted in the violation of this provision shall not be entitled to receive distributions or have any other rights with respect to such Units, except the right to transfer those Units to other than a Nonresident Alien, Foreign Business or Foreign Government.

The laws of states where the Partnership owns property or conducts business may also result in other restrictions on the ownership of Units. The General Partner is authorized to take actions necessary or appropriate to comply with any such laws, including the enforcement of restrictions on the transfer of Units.

(b) The Partnership shall not recognize transfers of Limited Partners' Units except by a transfer of Depositary Receipts representing Depositary Units. Depositary Units may be transferred on the books of the Depositary only by assignment, satisfactory in form and substance to the Depositary ("Assignment"), of the Depositary Receipt or Receipts evidencing such, by certification by the transferor of the identity of the transferee and the economic details of the transaction, and by the transferee's completing and delivering a certification as to its citizenship/residency; provided, however, that Depositary Units shall be transferable to Nonresident Aliens, Foreign Businesses or Foreign Governments or agents, trustees of fiduciaries of such persons or entities only when the aggregate interest in the Partnership owned, directly or indirectly, by Nonresident Aliens, Foreign Businesses or Foreign Governments or agents, trustees or fiduciaries of such persons or entities will not be greater than 50%. No transfer of Depositary Receipts evidencing such Depositary Units will be recognized by the Partnership and no new Depositary Receipt will be issued to the proposed transferee unless such requirements are met.

(c) Pending admission as a Substituted Limited Partner in respect of such Depositary Units pursuant to Article XIII, the transferee shall be an Assignee in respect of the Limited Partners' Units represented by such Depositary Units.

(d) Each distribution of cash available for distribution in respect of Limited Partners' Units evidenced by Depositary Receipts (or certificates withdrawn from the Depositary) shall be made by the Partnership, directly or through the Depositary or through any other Person or agent, only to the holders of record of such Depositary Receipts or certificates as of the record date set for the distribution. Such distribution shall constitute full discharge and satisfaction of the Partnership's liability in respect of such distribution, regardless of any claim of any Person who may have an interest in such distribution by reason of an assignment or otherwise.

ARTICLE XIII

Admission of Substituted Limited Partners

13.1 Admission of Substituted Limited Partners.

(a) Any Assignee may, subject to Article 6.3, apply to become a Substituted Limited Partner with respect to Limited Partners' Units transferred to such Assignee by executing and delivering a Request and Power. A transferee who has completed and delivered a Request and Power shall be deemed

(1) to have agreed to comply with and be bound by this Agreement and to execute any document that the General Partner may reasonably require to be executed in connection with the assignment and his admission as a Substituted Limited Partner and (2) to have appointed the General Partner his attorney-in-fact, on the terms and conditions set forth in Article XVI.

(b) Under the terms of the Depositary Agreement, the Depositary is obligated to prepare as of the close of business on the last business day of each calendar quarter, a list or other appropriate evidence of the Limited Partners and, as promptly as possible after the last business day of each calendar quarter, to submit such list to the Partnership. Upon receipt of such list of Limited Partners by the Partnership, the Partnership will prepare and record an amendment to the Certificate of Limited Partnership pursuant to Article 13.2.

(c) The admission of an Assignee as a Substituted Limited Partner shall become effective on the date that an amendment to the Certificate of Limited Partnership evidencing such substitution is filed pursuant to Article 13.2.

(d) The admission of an Assignee as a Substituted Limited Partner may be effected without the consent of any of the Limited Partners.

13.2 Amendment of Certificate of Limited Partnership. For the admission to the Partnership of a Substituted Limited Partner, and for any other purpose, the General Partner shall take all steps necessary and appropriate to prepare and record (or file) in accordance with the requirements of applicable law an amendment to the Certificate of Limited Partnership without the signature of any Limited Partner. An amendment to the Certificate of Limited Partnership shall be filed promptly by the Partnership after receipt of the list to be supplied to it by the Depositary as provided in Article 13.1(b) hereof.

ARTICLE XIV

Dissolution, Removal and Resignation of the General Partner

14.1 Dissolution. The Partnership shall be dissolved at the expiration of the term of the Partnership set forth in Article 2.5; provided, however, that the Partnership shall be dissolved prior thereto without breach of this Agreement upon occurrence of one of the following:

(a) The removal, resignation (which shall be effective ninety (90) days after written notice thereof is given to the other Partners), liquidation or insolvency of the General Partner;

(b) The Partnership becomes insolvent or bankrupt;

(c) The sale or other disposition of all assets of the Partnership including the distribution of all Cash Available for Distribution and the termination of reserves for known and unknown contingent liabilities;

(d) The occurrence of any event which causes a dissolution of a limited partnership under the laws of Illinois; or

(e) Upon the affirmative vote of the General Partner and the holders of more than eighty percent (80%) of the Limited Partners' Units held by Limited Partners of record.

14.2 Removal of the General Partner. The General Partner may be removed from office at any time by a vote of the holders of more than eighty percent (80%) of the Limited Partners' Units held by Limited Partners of record upon the following terms and conditions:

(a) Upon the written request of Limited Partners holding more than fifty percent (50%) of the Limited Partners' Units held by Limited Partners of record requesting a vote upon the removal of the General Partner, a vote shall be taken upon the matter within the time limit hereafter prescribed after the delivery of the written notice to the Partnership. The written request for a vote shall be signed by the Limited Partners requesting the vote and shall specify a Person to act as liquidator of the Partnership in the event of an affirmative vote to remove the General Partner; and

(b) Within thirty (30) days after the receipt of the written request, the General Partner shall furnish each Limited Partner with a ballot and such ballot shall specify that it must be returned to the Partnership within thirty (30) days after the date of mailing thereof. Failure of the Partnership to receive a ballot by such date shall constitute a negative vote with respect to the Limited Partners' Units represented by such ballot. An affirmative vote of the holders of more than eighty percent (80%) of the Limited Partners of record is required for removal of the General Partner.

ARTICLE XV

Winding Up And Liquidation

15.1 Authority to Wind Up. If dissolution occurs for any reason other than as set forth in Article 14.1(a), the General Partner shall have the authority to wind up the business and affairs of the Partnership. If dissolution occurs by reason of the resignation or liquidation of the General Partner, the legal successor(s) to the interests of the General Partner shall have the authority to wind up the business and affairs of the Partnership. If dissolution occurs by reason of the removal of the General Partner, the liquidator described in Article 14.2(a) shall have the authority to wind up the business and affairs of the Partnership. If dissolution occurs by reason of the insolvency of the General Partner, a liquidator appointed by Limited Partners holding more than fifty percent (50%) of the Limited Partners' Units held by Limited Partners or record, shall have the authority to wind up the Partnership Business and affairs of the Partnership.

15.2 Accounting. Upon dissolution, and again upon the termination of the Partnership after the winding up of the affairs of the Partnership is complete, an accounting of the books of the Partnership shall be made by the independent public accountants of the Partnership, and a report thereof by such accountants shall be furnished to the General Partner; to all Limited Partners and to all holders of Depositary Units.

15.3 Winding Up and Liquidation. Upon dissolution of the Partnership, it shall be wound up and liquidated as rapidly as business circumstances will permit. The assets of the Partnership shall be paid as follows:

(a) To creditors, in the order of priority as provided by law;

(b) To the Limited Partners and Assignees, as a group, an amount equal to the amount of such assets remaining after payment to creditors described in (a) above, multiplied by a fraction, the numerator of which is the total number of Limited Partners' Units and the denominator of which is the sum of the number of General Partner's Units and the number of Limited Partners' Units; and

(c) To the General Partner an amount equal to the amount of such assets remaining after payments to creditors described in (a) above, multiplied by a fraction, the numerator of which is the number of General Partner's Units and the denominator of which is the sum of the number of General Partner's Units and the number of Limited Partners' Units.

15.4 Allocation Among Limited Partners and Assignees. Amounts allocated to Limited Partners and Assignees, as a group (including the General Partner to the extent that it holds Limited Partners' Units), shall be allocated among the Limited Partners and Assignees (including the General Partner to the extent that it holds Limited Partners' Units) in accordance with the Allocable Share of each.

15.5 Unresolved Liabilities. The Partnership may have substantial contingent or unliquidated liabilities, including contested and unknown liabilities (collectively, "Unresolved Liabilities") at the time of its winding up and liquidation. It is the judgment of the Partners that the best interests of the Partners will be served if the General Partner, acting on behalf of the Partnership, makes such provision as in its business judgment is reasonable and adequate to pay or provide for payment of the likely amount of such Unresolved Liabilities, even though under certain contingencies, the maximum possible amount of such liabilities may be substantially greater than the amount so paid or provided for. Accordingly, the General Partner shall not be liable to any Person, including without limitation, the Partners or any of them, if the amount of the Partnership's Unresolved Liabilities as finally determined is in excess of the amount so paid or provided. Any amounts set aside or provided by the Partnership in respect of Unresolved Liabilities shall be in cash, or in obligations having a maturity of less than one year, and no part thereof shall be in the form of land, growing crops, stored grain, or other assets comprising or similar to Agricultural Properties. The General Partner may provide for Unresolved Liabilities by the use of a liquidating trust, successor partnership, agreements of indemnification, liability assumption, insurance, or bonding, or by any other arrangements which the General Partner in its discretion, deems appropriate.

ARTICLE XVI

Power of Attorney

Each Person who executes a Request and Power shall by such signature grant and authorize the General Partner to execute any and all instruments and to do or have done all things deemed by the General Partner to be necessary or convenient to the Partnership Business, and shall, to the extent necessary therefor, irrevocably constitute and appoint the General Partner agent and attorney-in-fact for all purposes relative to creation and continuation of the Partnership as a limited partnership and for the conduct of the Partnership Business. Without limitation of the foregoing, the General Partner shall have full power and authority to act in the name of, and on behalf of the signing Person, in the execution, acknowledgment, verification and filing of the following documents:

(a) The amended Certificate and other amendments or a cancellation of the certificate of limited partnership under the Illinois Uniform Limited Partnership Act and the laws of any other state in which such certificates, affidavits or other documents creating, evidencing, or preserving the Partnership, as a limited or special partnership may or should, in the opinion of the General Partner, be filed or recorded;

(b) Any other instrument which may be required to be filed or recorded by the Partnership under the laws of any state or by any governmental agency, or which the General Partner considers advisable to file of record;

(c) Any documents which may be required to effect the continuation of the Partnership, the substitution or addition of a Limited Partner, the amendment of the certificate of limited partnership, or the dissolution and termination of the Partnership, provided such continuation, substitution, addition, amendment or dissolution and termination are in accordance with the terms of this Partnership Agreement.

Each such Person by such signature shall also authorize the General Partner to take any further action which it shall consider necessary or appropriate in connection with any of the foregoing, thereby giving the General Partner full power and authority to do and perform each and every act and thing whatsoever requisite, necessary or appropriate to be done in connection with the foregoing as fully as such Person might or could do if personally present, and thereby ratifying and confirming all that the General Partner shall lawfully do or cause to be done by virtue thereof.

The foregoing grant of authority:

(a) Is a special power of attorney coupled with an interest, is irrevocable and shall survive the death, disability or incompetence of the signing Person;

(b) Shall not be affected by the subsequent disability or incompetence of the signing Person;

(c) May be exercised by the General Partner for all Limited Partners and Assignees by a single signature and acknowledgment or verification of the General Partner, acting as attorney-in-fact for all the Limited Partners and Assignees together, or by listing all of the Limited Partners and Assignees and executing any instrument with a single signature and acknowledgment or verification of the General Partner, acting as attorney-in-fact for all of the Limited Partners and Assignees together; and

(d) Shall survive the delivery of an assignment by the signing Person of the whole or a portion of his Unit or Units.

ARTICLE XVII

Miscellaneous Provisions

17.1 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall, in the case of notices or communications required or permitted to be given to Limited Partners, be in writing and shall be considered as properly given or made if personally delivered or if mailed by United States first class mail, postage prepaid, or if sent by prepaid telegram, and addressed to such Limited Partner's address for notices as it appears on the records of the Partnership, and, in the case of notices or communications required or permitted to be given to the General Partner, shall be in writing and shall be considered as properly given or made if personally delivered, or if sent by prepaid telegram, or if mailed by United States certified or registered mail return receipt requested, postage prepaid, and addressed to the General Partner's address for notice as it appears on the records of Partnership. Any Limited Partner or Assignee or the General Partner may change his address for notices, by giving notice of such change to the Partnership. Commencing on the tenth day after the giving of such notice, such newly designated address shall be such Partner's or Assignee's address for the purpose of all notices or other communications required or permitted to be given pursuant to this Agreement. Any notice or other communication shall be deemed to have been given as of the date on which it is personally delivered or, if mailed or telegraphed, the date on which it is deposited in the United States mails or transmitted in each case in compliance with the terms of this Article 17.1 except that any notice or other communication mailed or telegraphed to the General Partner which is not received by the General Partner within ten days after the date of its mailing or transmission shall be deemed to have been given as of the date actually received by the General Partner.

17.2 Choice of Law. This Agreement and all rights and liabilities of the parties hereto with reference to the Partnership shall be subject to and governed by the laws of the State of Illinois.

17.3 Certificate of Limited Partnership. Each Limited Partner hereby agrees to execute, acknowledge and file or deliver (either individually or by virtue of his or her execution of a Request and Power) all such certificates, amendments, instruments, documents, or counterparts thereof as may be required to comply with the laws of the State of Illinois or any other jurisdiction in which the Partnership does business or owns property. Amendments to the Certificate of Limited Partnership to reflect the addition of a Substituted Limited Partner need only be signed by the General Partner and by any Person to be added as a Substituted Limited Partner and the General Partner may sign for any of said Persons as their attorney-in-fact.

17.4 Amendments. Amendments to this Agreement which (i) do not adversely affect the rights of the Limited Partners in any material respect or (ii) are, in the opinion of counsel to the Partnership, necessary to prevent the Partnership or the General Partner or their Affiliates from being in any manner subject to the provisions of the Investment Company Act of 1940, as amended, or the Investment Advisers Act of 1940, as amended, may be made by the General Partner without the consent of any of the Limited Partners. Any amendment made pursuant to subsection (ii) above shall be deemed effective as of the date of this Agreement. Any amendment to this Agreement may be proposed to the Partners by the General Partner or by Limited Partners holding more than fifty percent (50%) of the Limited Partners' Units held by Limited Partners of record. The General Partner shall submit to the Limited Partners any such proposed amendment together with the recommendation of the General Partner as to its adoption. A proposed amendment shall become effective at such time as it has been approved in writing by Limited Partners holding more than eighty percent (80%) of the Limited Partners' Units held by Limited Partners of record and the General Partner; except that the affirmative vote of all Limited Partners of record will be required to amend this Agreement to change the provisions for allocation of Partnership profits and losses and entitlement to distributions or to amend this Article 17.4. For purposes of obtaining Limited Partner approval, the General Partner may require a response within a specified period of time (not to be less than thirty days) and failure to respond shall constitute a negative vote. The General Partner shall give written notice to the Limited Partners and Assignees promptly after any amendment has become effective or has been rejected by the Limited Partners.

17.5 Article and Section Headings. The headings in this Agreement are inserted for convenience and identification only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

17.6 Sole Agreement. This Agreement and the exhibits hereto constitute the entire understanding of the parties hereto with respect to the subject matter hereof.

17.7 Execution in Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties had all signed the same document. All counterparts shall be construed together and shall constitute one agreement.

17.8 Waiver of Action for Partition. Each of the parties hereto irrevocably waives during the term of the Partnership any right that it may have to maintain any action for partition with respect to any Property owned by the Partnership.

17.9 Assignability. Subject to the restrictions on transferability contained herein, each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the successors and assigns of the respective parties hereto.

17.10 Gender and Number. Whenever the context requires, the gender of all words used hereby shall include the masculine, feminine and neuter and the plural of all words shall include the singular and plural.

17.11 Severability. If any provision of this Agreement, or the application thereof, shall for any reason and to any extent, be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other persons or circumstances shall not be affected thereby, but rather shall be enforced to the maximum extent permissible under applicable law.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the day and year first written above.

GENERAL PARTNER:

____

LIMITED PARTNERS:

____

____

____

Exhibit C

Schedule of Additional Documents
Available for Inspection

1. Appraisal Services Agreement with Doane Farm Management Company
2. Management Agreement with CFF Management Corporation
3. Administrative Services Agreement with The Professionals, Inc.
4. Escrow Agreement
5. Exchange Agent Agreement
6. Depositary Agent Agreement
7. Agreement with CFF Realtors
8. Form of Proposed Trust Indenture

Exhibit D

Opinion of McDermott, Will & Emery

[to be included in the Final Prospectus]

Exhibit E

CONSOLIDATED FAMILY FARMS
505 North Lake Shore Drive
Suite 208
Chicago, Illinois 60611
Tel: 312-661-7000
Attention: James Rudnick

VALUATION REQUEST

SUBJECT PROPERTY

Name of Farm:
Name of Owner:
Location:
Nearest Town:
County and State:
ASCS Location:
Type of Farm (circle): Hog, Dairy, Grain, Cattle, Other

The purpose of this form is to provide Consolidated Family Farms (the "Partnership") with sufficient initial information to make a preliminary assessment of whether the Partnership wishes to pursue the possibility of including the subject property in the Exchange Offer as described in the Partnership's Preliminary Prospectus dated June __, 1984. Your assistance by typing or printing and by completing all sections of this form will greatly facilitate the speed and value of the initial review process. Should you require additional space, please attach a separate sheet of paper.

If this Valuation Request relates to a Mortgage Interest, check here ☐ and fill in only the sections "Subject Property" identifying the property, "Existing Financing" and "Price" with respect to such Mortgage Interest, the Real Estate Agent, if any, and the name, address, telephone number and capacity of the person submitting this request.

SUMMARY OF INFORMATION	
Number of: Tillable Acres	
Gross Acres	
Irrigated Acres	
Asking Price:	
Per Acre: Rental Value	
Taxes	
Insurance	
Tax Basis (Cost)	

OPERATING STATISTICS

Crop	# of Acres Planted			Yield (bu./planted acre)	
	1982	1983	1984	1982	1983

BUILDING/IMPROVEMENTS:

Category	Type/Description	Estimated Value	Depreciated Basis
House(s):		$	$
Grain Storage:			
Irrigation Equipment:			
Tile:			
Livestock Facilities:			
Other Depreciable Assets:			
Totals		$	$

LAND:

Type of Land	# of Acres	Soil Type	% Slope
ASCS normal crop (irrigated)			
ASCS normal crop (non-irrigated)			
ASCS pasture			
ASCS waste and timber			
Farmstead			

Average rainfall:

MANAGEMENT:

Property is managed by:
Is property subject to a management contract? ☐ yes ☐ no
If so: Summary of current fee structure:

Present term ends (date):
Is there a renewal provision? ☐ no ☐ yes, renewable at management company's option
☐ yes, renewable at owner's option
If renewable, how many additional years?
Does management contract terminate upon sale of the property? ☐ no ☐ yes, at management company's option
☐ yes, automatically ☐ yes, at owner's option

LEASE AGREEMENTS:

Is additional acreage leased as part of the farm operation? ☐ yes ☐ no

If so: Lessor: ____________________

Summary of current fee structure: ____________________

____

Present term ends (date): __________

Is there a renewal provision? ☐ no ☐ yes, renewable at lessor's option ☐ yes, renewable at lessee's option

If renewable, for how many additional years? __________

Is lease agreement assignable? ☐ no ☐ yes, at lessor's option ☐ yes, at lessee's option

Is the subject farm property leased to another (in whole or part)? ☐ yes ☐ no

If so: Lessee: ____________________

Summary of current fee structure: ____________________

____

Present term ends (date): __________

Is there a renewal provision? ☐ no ☐ yes, renewable at lessor's option ☐ yes, renewable at lessee's option

If renewable, for how many additional years? __________

Is lease agreement assignable? ☐ no ☐ yes, at lessor's option ☐ yes, at lessee's option

EXISTING FINANCING:

If you wish to exchange your property subject to certain existing financing, please provide the following information in respect of that financing (use a separate sheet if there is more than one mortgage):

Mortgagor: ____________________
Position (1st, 2nd, etc.): ____________________
Interest rate: ______% Original amount: $________
Payments due: $__________ per __________
Payments due dates(months): ____________________
Does sale/exchange of property:
Require mortgagee's consent ☐ yes ☐ no
Cause mortgage to become due: ☐ yes ☐ no
Have any other effect on the mortgage? ☐ yes ☐ no

Mortgagee: ____________________
Principal balance as at(date) ________ was/is $__________
Other mortgagee participation: ____________________
Loan ☐ is self amortizing with final payment due on ______
☐ requires a final ("balloon") payment of $__________ on __________

If so, describe such other effect ____________________

PRICE:

What do you believe is a fair price for your property/indirect interest/mortgage interest $ __________

PLEASE ALSO FORWARD:

(a) a local map, indicating thereon the exact location of the property.
(b) at least one recent photograph of the property, and any other available pictures or brochures.
(c) any other information which you believe should have a material bearing on the extent of the Company's interest in your property, including soils maps, aerial views and tile maps, if available.

A REGISTRATION STATEMENT RELATING TO THE PARTNERSHIP'S INTERESTS HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BECOME EFFECTIVE. THE PARTNERSHIP'S INTERESTS MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS REQUEST SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

If the Owner designates a Listing Real Estate Agent in the space provided below, such Listing Real Estate Agent, subject to the terms and conditions set forth in the Preliminary Prospectus, shall receive the fee specified in the Preliminary Prospectus if the interest to which the Valuation Request relates is exchanged pursuant to the Exchange Offer. See Exchange Offer Procedures--Solicitation in the Preliminary Prospectus. The undersigned represents that the interest described in this Valuation Request is not the subject of any other Valuation Request submitted to the Company, and that neither the undersigned nor any other person has executed any other such Valuation Request with respect to such interest.

LISTING REAL ESTATE AGENT (if any)

Name of Agent ____________________
Company ____________________
Address ____________________
Phone No. ____________________

THIS VALUATION REQUEST IS SUBMITTED BY:

Name: ____________________
Address: ____________________
Phone No: ( ) - __________ Capacity: __________
Signature: ____________________ Date: __________

PLEASE NOTE that the Partnership will not review any Valuation Request which has not been submitted by the Owner of the interest or which is not accompanied by the required GOOD FAITH DEPOSIT of $1.00 PER ACRE but not less than $1,000 nor more than $5,000. Checks should be made payable to Harris Trust and Savings Bank, as Escrow Agent.

For a description of the procedures which will be followed upon the Partnership's receipt of this Valuation Request, see the Partnership's Preliminary Prospectus dated June __, 1984.

Senator **Pressler**. Mr. McGrath, do you have any opening statement?

Mr. **McGrath**. Thank you, Senator. I wish to make a couple of brief comments—I don't have a statement—reflecting on some of the statements that have been made earlier this morning.

I noticed some, oh, ambiguity, maybe, in the statements that were presented. And I sympathize with the ambiguity as to what is the solution or how can we help the farmers.

In one sense, our program is criticized for threatening with supposedly mass purchasing power in local communities. The ambiguity, of course, is that this suggests that this mass purchasing power, which really hasn't been implemented and there is no real plan at this point to provide, you know, massive amounts of services. As the prospectus points out, the farmers will be farming their own land and, of course, will be free to buy from whomever they choose. Presumably, they will seek out the best prices. This may be the Sears' catalog. It may be a large cooperative. It may be some program that's offered through Consolidated Family Farms. And it may be the local member of their community. To suggest that farmers should not have the benefit of cooperative purchasing arrangements, purchasing arrangements through companies in which they are owners, suggests some denial to farmers of the rights that are available to every other small businessman.

There has also been kind of an implicit criticism of the program that there is not massive investment being provided by the people organizing the program. And I think that goes to the heart of what I perceive to be the misunderstanding of the program. This program is much more akin to a cooperative venture. It's kind of a by-your-bootstraps-type approach. Farmers who are in trouble, farmers who may want to diversify, farmers who may want to plan their estates, for whatever reason are offered the opportunity, and, to my mind, for the first time in history, to band together and to take some—have some ability to recapitalize their own situations in a way that has been available to large businesses through public stock ownership, through the public capital markets, but has been unavailable to small businesses and particularly to small farmers.

We've identified the tools of their production as the land and have somehow burdened farmers in a way with the responsibility of owning and having massive capital investments in land. Unlike the burden that has been placed on any other business sector, this has perhaps contributed —I don't know that it's been the sole contribution—but it's contributed to the plight of the farmer today.

There's no question that the farmers are in trouble. The plan does not propose to create equity, to create value where equity or value does not exist. Nothing short of a miracle can do that. The proposal, however, does hope to create liquidity where liquidity might not otherwise exist. And we think that that's an important distinction, and we think, frankly, that that opportunity has not been offered to farmers in the past.

I just want to note that some of the statements that have been presented here by people this morning—and I think they do disclose it, although it may not jump out at people—are statements taken directly from the Consolidated Family Farms' prospectus, particularly the warnings and the concerns that are held out to people, the caveats, the bewares. Look, this program is not for everyone. There may be certain detrimental effects to you. You're going to lose control of your farm. On the other hand, here are the benefits. And I do want to point out that many of these statements are statements that are taken directly from Consolidated Family Farms' prospectus.

The prospectus did contain a chart. Now, I didn't have the benefit of Mr. Southard's chart that was passed out. It wasn't in the materials that I picked up. But there is a chart at page nine of the prospectus that does set forth the relationship.

I do want to comment on one statement that Mr. Southard made that he thought that the whole thing could be accomplished quite simply by a simple limited partnership. Just to reflect on what Mr. Hollerud has said, that the whole transaction here is fraught with legal complications, I think the task that the Consolidated Family Farms was faced with was trying to fashion a financial instrument, if you will, a cooperative venture in another sense, that complied with the very divergent laws in the various States relating to agricultural ownership, and yet provide to the owners who contribute their land, provide for the farmers, the maximum tax benefits.

This is not a scheme, as it has been categorized, to separate investment from the ownership of the land. In fact, the owners will continue to have their investment. It will be in a form of security rather than a direct ownership in land itself. And I suspect, to the minds of many of you, ownership, be it undivided or be a divided title to real estate, is worth more than ownership of securities. I do think that there are many people in this country who would hold to a different opinion, who would find that ownership of a security with the liquidity that it offers, the ability to fluctuate and respond to market conditions, the ability to be divided among various members of your family, the ability to be pledged, in part, as security without risking your entire fortune, your entire net worth on a single loan, is of great value.

And of course, it would only be when these instruments are traded in the marketplace that we will know. We do know, though, I think, that there is no dispute that the farmers are not able to realize value on their land. I think Mr. Hollerud can comment better than I, and I think probably it's known to many people in the room, the tremendous problem that farmers had this year getting operating capital. And of course, we believe that the securities might provide a vehicle to do that.

I would hope at some point in the morning Mr. Hollerud has the opportunity to comment on some of the responses that Consolidated Family Farms has received from farmers.

Originally, this prospectus was filed with the Securities and Exchange Commission, and it was filed in several States. No decision had been made to enter certain States, and in fact, decisions were made specifically not to enter certain States. Nebraska was a State under consideration, and because of a law that became effective in Nebraska, I believe as of June 30, the decision was made not to enter Nebraska, simply because the host State there has said that they do not want this type of investment vehicle available to citizens of their State.

This is fine. If the host State provides by its law that this type of recapitalization plan should not be available to their citizens, well, there is certainly no one that's going to try to force this program onto anyone. As we said, it's a free association.

In fact, the procedures that are required by compliance with the securities laws require that the properties be gathered and that then a complete listing of all the properties be made available to the farmers who are interested in participating. And at that point they can look over the whole list and say: Yes, I want to participate. I want to band together with this group of people in this cooperative venture. I realize that I am going to suffer a 10-percent dilution. This is no different than if I were to sell my property in a taxable transaction where I would have to pay real estate commissions and then pay an income tax on top of this. Here at least there is the benefit of not having the income tax bite until the time that the farmer wants to sell his units.

So it's been a process. The response to our—I guess to my surprise, not so to the people who are involved in the farming—has been overwhelming and that the calls have been overwhelming from the farmers, and that the newspapers have certainly picked this up beyond anything anyone could dream.

I work in the securities field, and my office probably files one registration statement a week with the Securities and Exchange Commission. And the typical response is perhaps 5 to 10 lines in the Wall Street Journal if the offering is significant, perhaps a paragraph in the local newspaper somewhere in the local hometown. Well, that, as you know, has not been the response. It's been as much of a surprise to me as it has been to you. And I think personally that, you know, it highlights at least the need.

We support the statements, I think, that have been made by some of the other people that there is a need here for government—there is a need for something. There's a need for a solution. Government has been trying to solve this problem for the last—since the thirties perhaps longer. What we're, I think, saying here is that Mr. Hollerud and his associates have identified a technique that they believe, using the capital markets, can help some farmers. And I think that's what we are offering to the farm community.

Senator PRESSLER. Let me begin by asking some questions so we can clarify the record. Now, first of all, as I understand it, the farmer loses his deed to the land at the initial stage. Is that correct? I mean he gives up the ownership of the land. There's a distinction here; you talked about this being similar to a cooperative movement but in a cooperative movement, a farmer continues to own or own and control the cooperative. This plan would be quite different from the cooperative movement as we know it, where it's owned and controlled by farmers. Is that not correct? That's really not a good analogy, to compare it to farmer cooperatives?

Mr. HOLLERUD. We're coowning and pooling a number of farms. You are exactly correct in that title is transferred to the partnership in exchange for depositary units.

Senator PRESSLER. That's right. So the very first phase of this is the farmer gives up the deed to his land.

Mr. **Hollerud**. At his election, yes. If he elects to come into the partnership, the exchange does take place and he does give up deed to his land, yes.

Senator **Pressler**. Then he essentially rents the land back. Now, where in the prospectus does it give that farmer a right to rent that land? Let's say that the owners, say, 2 or 3 years down the road, ask the farmer to move. Does it say somewhere in the prospectus that the farmer has the right to rent it as long as he wishes?

Mr. **Hollerud**. No, it does not. There are certain statutes in certain States that have limitations on the length of time in which rental agreements can be effected, and there are consequences if you go beyond there. Prior to the closing, prior to the final prospectus being entered into or given to the farmer, a lease will be negotiated with him. He will know, you know, at that time how long a lease he desires or does he desire a lease in any way, shape, or form.

Senator **Pressler**. How long are the leases that you are proposing currently?

Mr. **Hollerud**. One to 5 years.

Senator **Pressler**. One to 5 years. So the farmer really is not getting assurance that he can stay on the farm. He's getting assurance he can rent it for 1 to 5 years, at which time he may be asked to leave.

Mr. **Hollerud**. It would be extenuating circumstances, when you look at the total flavor of the program, if a farmer were asked to leave. In isolated cases, I would have to say, yes, if he is not conserving his farm and practicing good conservation and being able to make a living for himself, then I think we as a partnership would ask him to leave.

Senator **Baucus**. Would the Senator yield at this point?

Why only 1 to 5 years? That seems a little short to me. It seems to me lease agreements of this kind—where a farmer who's grown up there, lives there, spent his life there—it would be a longer period of time. Why only such a short period of time?

Mr. **Hollerud**. Typically—I have been in the farm management business also for a period of time, and due to the volatility of the commodities and land prices, we have to be fair both to the partnership and to the farmer. If land values would decline further, then adjustments in rent would have to be made to lower the rent.

We're in this so that the farmer makes a living and that the partnership will survive through cash distribution.

Senator **Baucus**. So as I understand you then, it's possible that a farmer enters into, a 2½-year or a 3-year lease, and at the end of 3 years when his lease expires, management comes back and says: "OK, you've got to pay, not 7.5-percent rent, but 10-percent rent if you want to stay."

Mr. **Hollerud**. That could be a possibility, depending upon the values of land at that time. If land has increased in value according to the value of the land we are looking at about a 7.5-percent return.

Senator **Baucus**. Thank you.

Senator **Pressler**. I have a series of questions here to dig out some of the facts. I will just march through them.

Now, how much of a voice in the management of the limited partnership will the farmers actually have?

Mr. McGRATH. In a limited partnership, farmers have, or owners, partners have, substantial contractual rights. But the rights basically relate to profit interests. Limited partners do not have control over the management and the affairs of the partnership. That is left in the hands of the general partners, which in this case is a partnership made up of, in much part, people with experience in farming, people—members of the local community and people with experience in real estate.

We have also provided a mechanism here for an advisory board, which would be elected by the limited partners. And this advisory board would be called upon to pass upon any transactions involving a conflict of interest or would be entitled to have—pass upon certain other transactions. It is contemplated—and of course, because again the legal technicalities of limited partnership law preclude giving the advisory board or the limited partners any additional rights—we cannot have them in a position where they can make binding decisions. To do that, we would have problems with the tax laws, and we would have problems with the marketability of the units. And an important part of this program, as you know, is to provide a market, to try to create a market for the financial instruments.

So it's for that reason. I think the answer is the rights of control are limited, although they do have the right to vote on certain fundamental transactions, the right to elect an advisory board. But in other respects, the control is limited.

Senator PRESSLER. That's my point. I just want to follow this up. I think it's a bad analogy to use the term "cooperative" here. Some people might think you're talking about a farm cooperative. Really, the management here would be with the general partner, but in a cooperative members have voting rights and it's farmer-owned and farmer-controlled. For the record, I want to say very clearly that I think it would be very misleading to call this plan a cooperative-type effort. The general partner would have the—by law has to have the power. He has to be the manager. He's legally responsible.

Now, your advisory board—I will yield to my colleague, Senator Baucus, but I want to clear up this point. A general partner runs it and makes the decisions, and it's not a cooperative with members having voting rights.

What would be the makeup of the advisory board? Let me emphasize that I don't think the advisory board would have any power under this plan. I mean they could make comments, maybe, but it would have no legal power.

Mr. McGRATH. Correct. Absolutely correct.

Senator PRESSLER. I think that should be very clear. The advisory board will have absolutely no power. Now, who would serve on this advisory board?

Mr. McGRATH. The limited partners would be entitled to elect certain representatives, and I think that probably the general partner would nominate certain people. And it would be much the same as an annual meeting, the proxy program for other corporations. This venture would be registered with the Securities and Exchange Commission. The securities would be registered under a section 12 of that act. The solicitation of proxies would be governed by the proxy rules of the Securities and Exchange Commission.

Senator **Pressler**. Is this a common practice to have advisory boards in a limited partnership? What precedent is there for this?

Mr. **McGrath**. It's probably—there's precedent for it in investment funds. Generally, in public limited partnerships there are no advisory boards. It was the conclusion of Consolidated Family Farms that this was something that they wanted to do in order to have more input, to bring the whole program closer to the farmers, as close to the farmers as they could, to provide some forum for shareholder democracy consistent with the limited partnership laws.

Senator **Pressler**. You say "shareholder democracy," you will conclude, though, that these advisory boards will have no power?

Mr. **McGrath**. Well, they do have the power to pass on conflicts of interest. There cannot be transactions entered into—I think the prospectus provides that transactions on which there might—on which there might be a conflict between the general partner and the partnership would not be entered into unless it had the approval of the advisory board, conflicts——

Senator **Pressler**. That would be true but any individual limited partner could pass on conflicts of interest without an advisory board.

Mr. **McGrath**. No, in limited partnerships, frequently there are conflicts of interest, and the general partner has a fiduciary duty to enter into transactions that are fair to the limited partners, but there's not a—there's not an independent entity or independent board passing on those transactions.

We don't suggest that this is—that this is the same as a—as a complete, you know, control. The limited partners do not have control.

Senator **Pressler**. That was my line of questioning.

Max, do you have something?

Senator **Baucus**. Thank you, Larry, I want to follow up on that beause on page 57 of the prospectus it says: "The general partner will have the sole authority to bind the partnership and to carry on the business and affairs of the partnership."

Mr. **McGrath**. Absolutely. And, you know, we've said that several times.

Senator **Baucus**. That's why I wanted to make sure. That's right.

I will have more questions later. But the basic question I have is what does a farmer get when he has these depository certificates? What rights do those certificates give him? It seems to me that they don't give him very much, that he has no ownership interest in the land, he has no management interest or management control. Could you just tell me what, if I am a farmer and I participate and I have a few depository certificates, what rights do I have?

Mr. **McGrath**. I think that—I think that——

Senator **Baucus**. What rights do I have? What rights do I have?

Mr. **McGrath**. Well, I appreciate your comments that it doesn't appear to you to be much, and I recognize that that's the judgment that you might make, and others might come to the same conclusion. I think that——

Senator BAUCUS. What rights do I have? What rights do I have?

Mr. MCGRATH. You have a right to sell your security in the marketplace. You have the right to receive the tax benefits that are allocable to your units. You have the right to receive distribution of the cash flow from those units, the same way as any other partner, including the organizers have. So that there is really a profits interest, a tax interest, and you have the right to vote for members of the advisory committee and to vote on certain fundamental changes of the partnership.

Senator BAUCUS. Let's take all those and flesh them out individually. What was the first right?

Mr. MCGRATH. I am not sure which——

Senator BAUCUS. The first right was to sell certificates in the marketplace or to——

Mr. MCGRATH. The right to sell them in the—right.

Senator BAUCUS. OK. Now, that assumes there's going to be a market.

Mr. MCGRATH. You're correct.

Senator BAUCUS. What does it take to establish a market?

Mr. MCGRATH. I think that's something that, you know, the investment banking community would answer better. But to me it would seem that the threshold here that has been set, with the minimum number of farms, the minimum acreage, the minimum diversification, would be a pool of assets and an income stream that would be sufficient to generate interest of arbitrageurs or people who are interested in investing. If I can tell you that there's an income stream out here of $3 million that's divided into so many units and that you're going to get your units based on this income stream, or that there's a pool of assets of, say, you know, $20 million, I think that there are people who would invest in that. Now, that's my judgment.

Senator BAUCUS. Do you have an investment banker?

Mr. MCGRATH. We are considering—we're talking to several at this point.

Senator BAUCUS. But so far, you have no agreement with any investment banker?

Mr. MCGRATH. No. And in fact, we believed that at this phase of the program—and again, there're securities rules that are applicable here; I mean we don't want to be touting a subsequent offering. In fact, we've told people right up front that there's no assurance of a market. And we don't want to be touting the secondary offering.

We believe that this offering should be accomplished by the general partner, and it should be accomplished by the people who know farming, that it should not be a Wall Street or a LaSalle Street or an anybody else's street's program, that it should be people that know farmers and can talk to farmers and relate to farmers.

Senator BAUCUS. Yes, but first of all, your first right, as I understand it, is the right to sell these units.

Mr. MCGRATH. Correct.

Senator BAUCUS. And again, that assumes a market. But so far, you have no agreement with any investment banking firm to determine whether or not there's going to be a market or not.

Mr. McGRATH. Correct.

Senator BAUCUS. What's the second—tax benefits?

Mr. McGRATH. Tax benefits. That was one.

Senator BAUCUS. What are the tax benefits? What rights——

Mr. McGRATH. Well, all of the depreciation—right now, a farmer owning a piece of land would have, you know, be entitled to certain depreciation that comes from that land. The farmer will give that up when he goes into this program, but instead it will receive his pro rata share of the depreciation and the investment tax credits and the like that flow through from all of the properties. Under a partnership system of taxation there is no intervening entity, like in a corporation that absorbs the tax benefits or the tax burdens. The farmers will be taxed directly on the income of the partnership and will receive their pro rata share of whatever credits or depreciation or things like that the farmer—that the pool of farms have.

Senator BAUCUS. Is it clear that there is no tax consequence to the exchange?

Mr. McGRATH. There will be tax consequences in certain limited cases depending on whether or not—how much—you know, how much the debt—whether the debt on the property exceeds the basis that the property has and whether—and in some cases, the mortgage interest. The indebtedness will have a tax consequence. And that's all explained in about 30 pages of tax material.

Senator BAUCUS. Have you asked the IRS for an advisory opinion?

Mr. McGRATH. No.

Senator BAUCUS. Why have you not?

Mr. McGRATH. McDermott, Will and Emery, the firm of which I am a partner, is we believe to be the foremost tax firm in the country. We have approximately 75 lawyers engaged in a full-time tax practice. And it is the opinion of McDermott, Will and Emery that the tax consequences set forth here are accurate. There are certain areas in which the IRS will not rule.

Senator BAUCUS. Is this one of those areas?

Mr. McGRATH. Well, there's—as I say, there's 30 or 40 pages of tax consequences, and there are——

Senator BAUCUS. It seems to me that if you want to sell these certificates and if you're so clear in your view as to the tax consequences, that you would consequently ask the IRS for an advisory opinion to have your view of the tax consequences reaffirmed in order to better assure the sales of your certificates, I would think.

Mr. McGRATH. It's been the decision of the tax people that it's either areas, you know—and I don't know whether the tax-free exchange is an area where they won't rule—they've decided anyhow, though, that it's unnecessary or areas that they won't rule.

Senator BAUCUS. OK. What was the third right now?

Mr. McGRATH. Distribution of profits, perhaps.

Senator BAUCUS. Now, what rights of profits does a unit certificate holder have?

Mr. McGRATH. They would get their pro rata share of distributions, the same as anyone else. The partnership has adopted an initial policy to distribute at least half of their profits. To the extent that profits are not distributed, much like a corporation, the profits would be accumulated in the partnership and would presumably increase the net worth of the farmers.

Senator BAUCUS. So, if I understand it, I hear you saying that the general partner has sole discretion to decide whether or not to distribute profits?

Mr. MCGRATH. That's correct.

Senator BAUCUS. And so if profits are distributed, then the certificate holder would be entitled to his pro rata share?

Mr. MCGRATH. That's correct.

Senator BAUCUS. Now, as opposed to a corporation, where a shareholder has certain rights through proxy statements or so forth, the certificate holder cannot change the management, has no right to vote on new or different management, or different general partners in this case.

Mr. MCGRATH. At the present time, there's not. Quite honestly, there are—we are examining the limited partnership laws of all the States that might be applicable, and this is one area in which if we conclude that it's possible, we would give the limited partners, I think, the right to review the management contract every 5 years or something like that.

But I think that's an area that I am really not free to speculate on, because I think that's partly driven by the State laws which are currently under examination.

Senator BAUCUS. But again, it's the general partner that has that right to——

Mr. MCGRATH. At the present time, that's correct. I will say, though, that the advisory board will have to—you know, in the event that we don't give the limited partners, that we conclude that the limited partners cannot have that right, that that will be something that will have to be reviewed by the advisory board which is elected by the limited partners.

Senator BAUCUS. Now, you say the certificate holders—what do you call them, depository——

Mr. MCGRATH. Depository units.

Senator BAUCUS. Holders of depository units are entitled to share pro rata in profits to the degree that profits are distributed. Does the holder of these certificates have any obligation? What if there are losses?

Mr. MCGRATH. The losses would pass through and that the—well, if there are losses, tax losses, the losses pass through and the unit holders would have the benefit of those losses. In other words, they'd be able to deduct it. They would not be liable for any more cash. The cash is solely the responsibility, to the extent that the partnership's assets are not sufficient, that its income stream is not sufficient, that's the responsibility of the general partner to resolve either through borrowing or through the general partner's own liability.

The general partner will be liable, and that the group of people constituting the general partner have a net worth, a substantial net worth, and they're putting that net worth at risk in this venture.

In another sense—and I just want to backtrack on something to make sure it's clear, and that's the question of the control that we talked about. The deposit—the holders of the depository units will be entitled to the tax benefits and the profit distribution. They will not be entitled to vote, that the voting and the right to inspect books resides solely in the limited partners. And a depository—a holder of depository units could become a limited partner under most circumstances, but there are certain categories of holders that cannot become actual limited partners. And that's done to accommodate the various laws of the States dealing with corporate and foreign ownership.

Senator PRESSLER. Let me follow up on that. Will the farmer be allowed to operate the farm in any manner he chooses, or will the partnership make that decision? I mean I am just carrying this down to what the power of the general partner is. The farmer would not be free to manage the farm. As a tenant he would not be free to make decisions about what crops to plant and where to plant them and so forth, if the general partners decided to tell him what to plant. Isn't that true?

Mr. HOLLERUD. We're going on a cash-rent basis. We will, you know, in establishing our leases, make it very, very clear to the individual farmers that we are not managing his farming operation as such. We are not going to tell him what to plant, when to plant, where to plant——

Senator PRESSLER. But you could.

Mr. HOLLERUD [continuing]. What to grow.

Senator PRESSLER. But you could under the power of the general partner make those decisions.

Mr. HOLLERUD. Under the cash-rent lease that we have negotiated, no.

Senator PRESSLER. But under a general partnership agreement you would have that power.

Mr. HOLLERUD. If we were to——

Senator PRESSLER. Under the plan the farmer retains no deed, the general partners decided to, let's say, in the next rental agreement—of course, it depends on what the rental agreement says—but let's say that after the 2½ years passed, there would be nothing to stop the general partners from saying, "We're going to have all corn on this land, or certain soil and water conservation practices that are now practiced might not be practiced, or all trees might be taken out." I am sure that wouldn't be your personal intention, but the point is, general partners have that power.

Mr. HOLLERUD. I would imagine that within the letter of the partnership, we could. Within the spirit of the partnership, no. There is no reason to do that. You know, there are not that many partnerships——

Senator PRESSLER. Well, I am sure that's not your personal intention. But let's say a general partner 10 years from now decided that they were going to take all the trees out and plant it to corn. They would have the power under the agreement to do that. That's what I am trying to say.

Mr. MCGRATH. Excuse me, Senator. The philosophy of the program is to provide cash rents. I believe the question was asked earlier about the rents, and someone said, "Well, bushel rents are more common, and other arrangements like that." The program contemplates cash flow, cash flow to investors, and that's the premises of the prospectus, and that's the premise that, you know—

that's the basis on which liability to investors and liability to the farmers who exchange is being created. That means that the partnership needs to enter into arrangements that will yield cash flow. Cash rents are what's contemplated. That puts the management entirely in the hands of the farmer. What crops he plants are irrelevant to the general partner.

Senator PRESSLER. That is an assumption, but the point is the power of the general partner is very much there, and if the general partner decides that he wants to say, "We're going to plant all corn in this lease," the farmer has nothing to say about that, I mean in a pure sense.

Mr. MCGRATH. Once the lease is entered into, that property is the farmer's, just the same as——

Senator PRESSLER. Yes, once the lease is entered into.

Mr. MCGRATH. Correct.

Senator PRESSLER. But what I am saying is, the general partners have total control. And I don't know why that's so hard to understand.

Mr. MCGRATH. At each time——

Senator PRESSLER. I'm just talking about the legal power. The power is there.

Mr. MCGRATH. And each time the lease is negotiated, there would be an opportunity for the general partner to dictate. Yes.

Senator PRESSLER. That's right. That would be every two and a half years or every year, or whenever the general partners decide.

Mr. MCGRATH. Sure. It could be. It could be.

Senator PRESSLER. I'm not fighting the system here, I am just trying to get a clear definition. The general partner has absolute control over the situation.

Mr. MCGRATH. Yes.

Senator PRESSLER. OK. Now, one of the benefits that has been said would come from the plan is the ability to buy supplies at a lower price because the partnership could buy products in larger quantities. Would a farmer be required to purchase his supplies in this manner, or could he buy his products from other sources? You talked about it would be a—you used the word "cooperative," which I want for the record again say that's not the way we think of a cooperative—but do you see a mass buying of supplies rather than going through small businessmen locally?

Mr. HOLLERUD. No. At this particular time, our—you know, we have no concept of having mass purchases. We were looking at that for something maybe in the future, that if there are a number of farmers could purchase locally through their local elevator in quantities, that they can get a discount. And maybe we will be able to work that for them. That's our—maybe through an insurance policy, a group insurance policy. These are things that we are looking at. We are not going out and mass purchasing in anything.

Senator PRESSLER. Now, what will the contribution of the general partners be? What will the original contribution of the general partners be?

Mr. MCGRATH. It's the amount of funds necessary to bring the program to the marketplace. And that involves the costs of the registration and the solicitation and the organization and the rest.

Senator BAUCUS. How much is that?

Mr. McGrath. We would estimate that it's going to be at least $500,000. But it may range upward to $1 million, depending upon how many local counsel we have to retain and how much, you know—it's going to be driven by that, probably, mostly.

Dick, do you have any comments?

Mr. Hollerud. No.

Mr. McGrath. No.

Senator Pressler. But the general partners will provide the expertise, the management, the registration of securities, but they won't provide any capital. It'll be the farmers who will provide the capital.

Mr. McGrath. That's correct. That's the whole concept of this program is that it's the farmers.

Senator Pressler. Now, in your registration with the SEC, you state that the farmer will receive units of partnership equal to 90 percent of equity in his farm. So it appears that the partnership will be expanded so the units the farmer receives will not actually be valued at 90 percent of his equity. What do you feel the actual value of the farmer's units to be?

Mr. McGrath. I am not sure I quite follow the question. There is only one, you know, if you want to—and Mr. Southard indicated that there were a lot of entities, and he speculated that it was for the purpose of taking off multiple commissions. The commission is stated quite succinctly to the farmers that it's 10 percent; that's the 10 percent dilution. That's the aggregate of all dilutions in net worth.

At the point in time after the units are issued—the units are strictly an exchange value—it's a relative sort of thing. For instance, we're going to take in, presumably, 25 farms. And let's say they have a value of a million dollars each. Well, those farms are going to be listed. People are going to look at it. They're going to say, "Yes, I want to be in. My farm is worth this in relation to all the others." And then the units are going to be issued. They're going to be subdivided, so to speak, so that the exchange value at the time of issuance will be approximately $20.

Whether or not the units trade at that price or whether they trade at more or less or substantially more or less is strictly a function of the marketplace, a market valuation of what the underlying assets and the cash flow from these assets is worth.

Senator Pressler. Now, in looking over some of the prospective general partners in your registration Consolidated Family Farms filed with the Securities and Exchange Commission, I noticed that several of the general partners are also involved in companies or oorporations that could provide various services or goods to the Consolidated Family Farms.

Could you expand upon the relationship of some of the general partners in these companies?

Mr. McGrath. I don't think there's any plan at this time for any of those services to be provided to the partnership.

Senator Pressler. Now, of course, you have not started selling securities or acquiring land. The Consolidated Family Farms appears at this point not to have any source of income or any substantial source of income.

Mr. McGrath. That's correct.

Senator PRESSLER. How are you financing your operation? Has your partnership experienced any financial problems?

Mr. McGRATH. It's being financed through a limited partnership that was formed between the principal organizers, the members of FMC Management Co., and a group of limited partners. Those limited partners have to date subscribed for approximately $500,000. I think that's close—I mean it's something give or take that. And that that constitutes the capital of Farm Management Co. of America at this time.

Consolidated Family Farms itself has not yet been organized and will be organized at the time of exchange unless we make a decision for tax reasons that it can be organized at an earlier date. The present thinking of the tax people is that the safest course to take is for the partnership to actually be organized simultaneously with the contribution.

Senator PRESSLER. Now, when a farmer enters into the partnership, will he be required to pay income tax, capital gains, on the units he receives in return for the equity in his farm?

Mr. McGRATH. Only to the extent debt exceeds basis and only in the case of certain, we call them, mortgage interests, certain indebtedness. And that's kind of explained back in the tax material there.

But generally, it would be a tax-free exchange.

Senator PRESSLER. But if debt exceeds basis, it would not be.

Mr. McGRATH. To that extent of that excess.

Senator PRESSLER. Now, why would a bank which has a priority position with a mortgage on farmland trade that position for an equal position in a limited partnership? Also, wouldn't a bank have to take a 10 percent loss when they trade for the units, since the Consolidated Family Farms receives 10 percent of the equity?

Mr. McGRATH. Let me first comment, and then I would like to have Dick say a few words on this.

The property will be valued, and an arrangement will be worked out really between the owner and the bank as to how many units and how—you know, what the relationship is between the equity of the owner and the position of the bank. That contemplates a negotiation between the owner and the bank. When a property comes in that's burdened with debt, it's going to require the consent of all the parties that have an interest other than an assumable mortgage of less than approximately 30 percent. Now, in some cases, a greater mortgage would be accepted, particularly if it's at a favorable low interest rate. In other cases, depending upon the interest rates, it's expected that some properties will be virtually debt-free.

In many cases, at this point lenders are so far subordinate and often unsecure that their position, at least based on what they've told us and based on my own experience, is virtually worthless. In order to realize on it, they would have to foreclose. They would have to pay off senior lenders. There's negative cash flow. The debt is not being serviced. And as a consequence, they're sitting there, and, yes, they have an interest in this land. But the only way they can realize on it is to sell it out from underneath the farmer.

What we're saying is, this offers them a vehicle to get liquidity. They may say, "Look, these units are going to trade at less than face value." On the other hand, they're going to ask themselves, "If someone came along and offered me 75 cents on the dollar, 50 cents on the dollar, maybe even 25 cents on the dollar, for this nonperforming loan, you know, would I sell it?" And I think the conclusion, at least based on what we have heard, is that they would be very favorable to respond to that.

Dick, did you want to say anything to that?

Mr. **Hollerud**. We've had numerous calls from bankers and saying that they are very interested in the program, that they can take units, their State banking laws allow them to take units and——

Senator **Baucus**. Are you at liberty to give the names of those bankers?

Mr. **Hollerud**. I am not at this time, but I can give them to you in confidence.

Senator **Baucus**. Well, I'd like to have them for the record.

Mr. **Hollerud**. I have talked to the United Central Bank in Des Moines, to Hawkeye Banks in Des Moines. I don't—do I have to go further?

Senator **Baucus**. That's OK. Thank you.

Mr. **Hollerud**. OK. We have also—we have—I have a list that I may provide you with banks that have inquired. That's where I got the numerous numbers that have called us directly in Chicago.

Mr. **McGrath**. Excuse me. We've also reviewed the insurance laws of the State of New York under which most life insurance companies are organized and the national banking laws, and have concluded that it's not going to be a problem for many financial institutions.

Senator **Baucus**. Well, I am curious to know not only about the legalities, but the degree to which banks are in fact interested in participating. Both points.

Mr. **Hollerud**. OK.

Senator **Baucus**. I am curious as to what banks have answered those questions in the affirmative. And apparently the two banks you gave, which I take it answered those questions in the affirmative?

Mr. **Hollerud**. Yes.

Senator **Baucus**. Thank you.

Mr. **McGrath**. Obviously, if the banks do not want to cooperate with the program, the program is never going to take off.

Senator **Baucus**. Sure.

Senator **Pressler**. Let me ask you why you decided to use a cash-rent system rather than a rent based on crop value?

Mr. **Hollerud**. Rent based on crop value? Are you referring to a bushel lease, or are you referring to——

Senator **Pressler**. Yes.

Mr. **Hollerud**. A per-bushel lease?

Senator **Pressler**. Two-fifths, three-fifths, or something like that. Most land is now, as I think the head of the NFO said, rented on a crop basis, three-fifths, two-fifths or some other type of—but your plan is a cash rent. Why did you opt for cash rent?

Mr. **Hollerud**. Our plan is a cash-rent system because of management aspects of it. And we do have to have a cash distribution; a cash flow is projected there.

Mr. McGRATH. Again, the theory is—and some may disagree with our theory, but believe me, it was a good-faith decision—that by putting—by structuring this as a cash rent, one of the concerns that you have is, namely, control of someone over the farming operations, would be alleviated; that that would put the farmer in control of his own property and as long as he could pay a cash rent—which I might point out, one of the statements here said, you know, how can a farmer pay this type of cash rent? And I am suggesting that this is in lieu of principle, interest, property taxes—it's in lieu of all property taxes and insurance, and what is often the case, a substantial portion of the principle and interest that he's burdened with. In most cases, at least the farms that I have seen, that often far exceeds the 7.5 percent. In fact, it's much more like 15 percent. And that's why farms don't yield that much, and that's why there's a negative cash flow each year. Every year, the farmers find themselves further in debt when they harvest.

Senator PRESSLER. Now, a farmer who has an FmHA loan, Federal law would prohibit them from taking units. Is that correct?

Mr. HOLLERUD. We don't know as of this time.

Senator PRESSLER. Could foreign investors participate in your partnership?

Mr. HOLLERUD. Go ahead, Bill.

Mr. McGRATH. Subject to limitations. Foreign investors cannot become limited partners.

Senator PRESSLER. Cannot become limited partners.

Mr. McGRATH. Cannot become limited partners. They can become——

Senator PRESSLER. They can become general partners?

Mr. McGRATH. No, they——

Senator PRESSLER. No.

Mr. McGRATH [continuing]. Cannot become general partners. They cannot become limited partners. They could become assignees of depository units. In other words, in no circumstances can any foreign person, government, or corporation or business have any right to vote on any matter, can any foreigner have any right to inspect any books and records. They can become assignees of partnership interest—excuse me—of depository units which represent the right to become limited partners if you're a qualified person; in other words, not a corporation or a foreigner. They can become a transferee of one of these interests; in other words, entitled to the profits from it. But again, that's limited to a majority—less than majority.

Senator PRESSLER. Now, your registration calls for farmers to pay the settlement fees and other exchange expenses. In some cases, this would be many thousand dollars. Since the farmers would already be cash short, how would you foresee the farmers would be able to pay those expenses?

Mr. HOLLERUD. I think our registration calls for the farmers to submit $1 per acre, a minimum of $1,000, maximum of $5,000 for an appraisal fee. The appraisal fee, the contract that we have negotiated with Doane's is $2 and some cents per acre for an appraisal. We cannot get any farms appraised at the rates that we have to pay Doane's from the appraisal costs of the farmer.

The cost of closing, we are asking them to bring the abstracts up to date for title insurance and for the closing costs, which normally, having been in the real estate business at this particular time, and if you're in an abstract State, such as we are in Iowa, it may run $250. Your deed preparation is $25 to $30. And no surveys; if a survey is desired, it will be paid by an agreement between the partnership and the farmer.

Mr. McGRATH. Just to highlight something that Dick said there, that he pointed out—I'm not sure the point was—was, you know, realized—that—that the appraisal fee will be paid approximately half by the farmer. The farmer is going to pay $1 an acre, not less than $1,000, not more than whatever the amount is——

Mr. HOLLERUD. $5,000.

Mr. McGRATH [continuing]. $5,000. That's not enough to cover the appraisal, and that the general partner is going to pay the difference on the appraisal, which is approximately, you know, another half of that.

Senator PRESSLER. Now, where in the registration is the 7.5 percent rate or rent established? Is that in the registration statement somewhere?

Mr. McGRATH. No.

Mr. HOLLERUD. No.

Mr. McGRATH. The rentals will be negotiated at the time the person enters into the program.

Senator PRESSLER. Oh, I see. So this 7.5 percent rate is not yet established.

Mr. McGRATH. It's not——

Senator PRESSLER. It could be 12 percent or 20 percent or 2 percent, in other words?

Mr. McGRATH. Well, the farmer presumably would not enter into an arrangement like that. It is the policy of the program to state the rentals. And at the time that the next prospectus, or at least the final prospectus, comes out—in other words, that the time the farmer gets his final look-see to see if he wants to be in the program or not, the rentals that have been negotiated on all the properties will be stated.

Senator PRESSLER. So in other words, if you have a year-to-year rental agreement, it could be changed after a year to a level that a farmer couldn't afford to pay?

Mr. McGRATH. Well, if that's what the market conditions are. But——

Senator PRESSLER. I have more questions, but I am going to yield to Senator Baucus for his basic line of questions.

But let me just say that there are three or four things that very much bother me about the way this plan has been presented. You might respond. I think what you're proposing is technically legal, but there are some very misleading things about it. First of all, to use the word "co-op" as you have done here this morning is very misleading to our farmers. It is not a co-op at all. Co-op implies that farmers have control and that the farmers own and control the partnership.

Second of all, I think that there is an illusion of who really controls this. These advisory committees have no power, as we have established in the testimony this morning. The general partner, not the farmers has all the power, and the general partner could after the first year say, "We plant all corn, or we take all the trees out"--the general partner has total control. There shouldn't be an illusion about control. These advisory committees have no power.

Third, it should be clear that the farmers supply all the capital, even the closing costs, the deed to the land, and they end up with shares which may or may not be worth very much. That should be stated very clearly and forthrightly.

Finally, the business of the rent. It should be clear that a farmer has no right to even rent the ground after the first lease, which is going to be for 1 to 5 years. The rent may not be 7.5 percent, it may be much more.

Farmers are not usually represented by legal counsel, and I think that some of our farmers who are desperate for capital may be misled in these areas.

Let me also say that, we do have the basic farm problem that has created the atmosphere where something like this could be believed or have credibility. I have called on the President to have a summit conference on interest rates and call in the large international banks, the Governors of the Federal Reserve Board, and congressional leaders. I think interest rates are the No. 1 problem that we have. We also have the problem of our exports and getting our agricultural products under the General Agreement on Trade and Tariffs. Those are things regarding farm prices and interest rates that we must work on.

But this plan, really, even the testimony this morning has been misleading, in my view, and we've had to dig out some of these things. But in those four areas, I am especially concerned about this plan. I am going to do everything I can to alert farmers and farm groups about this.

Mr. McGRATH. Senator, I would like to just say that the term "cooperative" is not used anywhere in the prospectus.

Senator PRESSLER. But you did use it in your testimony fairly extensively.

Mr. McGRATH. Well, I used it to say that it was like that in terms of common ownership and that that was one of the analogies that we were drawing on.

Senator PRESSLER. OK.

Mr. McGRATH. I do want to say that I—we thought that points 3 and 4 were made in the prospectus. To the extent that they have not been, we welcome your comments, and we certainly, you know, have no desire to try to mislead anybody, and we want to spell it out very clearly to them, to everyone, what the consequences of this program are. It's an effort to provide a vehicle if people want to participate.

But I do want to ask your advice on the advisory boards. We put the advisory board in with the intention or with the expectation that it would provide to farmers some voice, some means of communication with the general partner. It's not often put into public limited partnerships. And I think I can say confidently that Consolidated Family Farms would be very happy to delete it.

Would your recommendation be to delete it or to explain it differently or—you know, I am not sure I quite got the gist of your point.

Senator PRESSLER. Well, the point is that you shouldn't say that the advisory board has any authority. You should make it clear that they have no power. An advisory board, usually implies that they have some leverage or some authority, but in this case, the general partners legally have all of the control. You would be remiss if you were to imply that any of their responsibilities were delegated. Of course, nobody can ever be against an advisory board, but I don't think farmers should have the board described to them in this manner. It sounds as though the farmer is going to have a part in running this partnership.

Mr. McGRATH. So your recommendation is: Further disclosure—which we'd certainly agree.

Senator Pressler. That's correct, yes.

Mr. McGRATH. OK. Then we——

Senator PRESSLER. But I wouldn't necessarily be against the advisory boards if they could be given some power.

Senator BAUCUS. Could you tell me when you plan to have your registration statements filed with the SEC go effective?

Mr. McGRATH. Well, that's going to depend totally on the SEC. My guess is it's at least a couple months.

Senator BAUCUS. How many updated registration statements have you filed with them?

Mr. McGRATH. We've just filed one, although we probably will be filing a second one within 3 weeks or a month.

Senator BAUCUS. When did you file the first one?

Mr. McGRATH. June 28.

Senator BAUCUS. Are there any requirements under the laws administered by the SEC for financial statements of the general partner or the limited partners?

Mr. McGRATH. No. There will be a requirement at the time the prospectus goes effective, to set forth financial statements for the—for the partnership itself; in other words, a pro forma projection of what the partnership will look like. And that we would include. To the extent that any other financial statements are required, in the opinion of Peat, Marwick, we certainly will put them in.

Senator BAUCUS. But I was curious as to what financial statements will be required. Can you tell me again?

Mr. McGRATH. Well, it will be a projection of what the—it will be a pro forma, not a projection—it will be a pro forma of the properties that are coming in. In other words, it would list the properties, that they're assets, and it would show the projected revenue based on them.

Senator BAUCUS. But what financial disclosure is required with respect to the general partner?

Mr. McGRATH. To my knowledge of that, there is none. Peat, Marwick is not—you know, they've signed the opinion and have not suggested. If in fact the balance sheet of the general partner, which is the most that would be required, is required, certainly that one will be put in.

Senator BAUCUS. Have you received an initial letter of comment from the SEC with respect to your first filing?

Mr. McGRATH. No.

Senator BAUCUS. Will you give this committee a copy of that letter when you receive it, please?

Mr. **McGrath**. Oh, absolutely. Sure.

Senator **Baucus**. And copies of all subsequent communications between the company and the SEC?

Mr. **McGrath**. We would address that to Senator Pressler?

Senator **Baucus**. Yes.

Mr. **McGrath**. OK. Fine. Sure.

Senator **Baucus**. Or to the committee.[1]

Have you included a copy of a standard lease with your filings thus far?

Mr. **McGrath**. No, we haven't, but we will be doing that in the next amendment.

Senator **Baucus**. Could you send a copy of that lease?

Mr. **McGrath**. Yes. Dick will send you a copy of the filing with all the exhibits.[1]

Senator **Baucus**. OK.

Why did you not comply with the Kansas securities law?

Mr. **McGrath**. Well, I think that's a judgment that we would disagree with.

Senator **Baucus**. Well, it's the judgment of Mr. Southard.

Mr. **McGrath**. I understand. I disagree with him in that judgment. But I think that what has happened in Kansas, as best I know, was that the partnership was trying to make a decision whether or not to enter Kansas. Kansas was one of the States being considered. There were factors to be considered; namely, the statute relating to agricultural land ownership, which from a legal point of view I think I reached a conclusion that it did comply. There has never been any question as to whether or not it's a security. I mean we filed with the SEC and, you know, and filed in many States. I mean there is in my mind no question that it's a security.

Senator **Baucus**. Didn't Kansas get a cease-and-desist order?

Mr. **McGrath**. Yes. But the partnership then—the newspapers in Kansas picked this up, and people, several people from Kansas, called into Consolidated Family Farms. Now, Dick can comment on this. But I think the mechanism of what happened was that the newspapers called, the radio stations called and said, you know: "Tell us about this filing and why aren't you in Kansas," and questions like that. And he said: "Well, here's their program. Here's what we're doing. And no, you know, we're not in Kansas."

I have not heard all the statements, so I can't say exactly what was said in those conversations. But in any event, in response to that, people did call, and as a response to that, Kansas issued a cease-and-desist order from offering securities.

Now, I think there's a real question as to whether or not an article that is published by a newspaper outside of the control of the people and telephone calls received from people—I mean we can't hang up on people and keep them from calling.

Senator **Baucus**. Well, Mr. McGrath, on the contrary, you said you're a securities—are you a lawyer?

Mr. **McGrath**. Yes, sir.

Senator **Baucus**. You said you're a securities lawyer. Why didn't you advise your client not to respond to those requests from newspapers and radio stations in a way that wouldn't amount to a solicitation, or anything in the nature of an offering? I mean it's my experience that prior to the effective date of a registration statement, whether it's SEC or State, a company contemplating an offering may not offer or make statements in the nature of an offering.

---

[1] Information not available at time of going to press.

I am just curious why you did not advise your client, when he received these inquiries, to respond in a way that was not tantamount, in the judgment of the Kansas Securities Commissioner of a solicitation and, therefore, a violation of the State securities laws?

Mr. **McGrath**. Well, we provided them with what we normally do, which is called a blue-sky memorandum, outlining what can and cannot be done. They were operating and they were filed in several States. Newspapers were calling. And to the extent that they may have said more to newspaper reporters in Kansas as opposed to, you know, St. Louis or, you know—you know, which side of the river you were on, I really don't know what all was said. But I guess I can understand in certain circumstances that with people beating up on you with questions, that sometimes you might answer them instead of saying, "Sorry, I'm not going to talk to you."

Senator **Baucus**. Maybe. Well——

Mr. **McGrath**. I mean I don't know what was said.

Senator **Baucus**. Well, I know you don't know, but my question is why didn't you advise them to——

Mr. **McGrath**. Well, we advised—as I say, we gave them our directions, but they were able to talk to people and to describe the prospectus and to answer questions, much like we're doing today. You know, it's possible that a newspaper here from Kansas could pick up this discussion and run an article in a Kansas paper tonight. You know, there's not much I can do about that, even though I think the decision is made not to proceed in Kansas, or at least not at this time.

Senator **Baucus**. It's my understanding that—correct me if I am wrong, but just for the record so we know—that when you did send statements to a couple of States, that those registration statements were returned because the company's checks bounced. Is that true?

Mr. **McGrath**. Dick, maybe you can comment on that.

Mr. **Hollerud**. No, the company's checks did not bounce. We changed banks, and at the——

Senator **Baucus**. Wisconsin and Missouri are the two States in question.

Mr. **Hollerud**. Right. Wisconsin and Missouri. We changed banks to a larger bank downtown, and I believe the checks came back and said, "Uncollected funds," at that particular time.

They are all—it's in the process of the banking business. And that's it.

Senator **Baucus**. I don't think this is required, but could the company provide a—and I am requesting this—the financial statements of the general partners?

Mr. **Hollerud**. The financial statements of the general partner?

Mr. **McGrath**. Of Consolidated Family Farms, I'm sure that one could be available. Sure.[1]

Senator **Baucus**. Of the general partner.

Mr. **McGrath**. Yes.

Mr. **Hollerud**. Yes.

Senator **Baucus**. When do you expect to put this together? When are the farmers going to potentially exchange their deeds for certificates, and so forth?

Mr. **McGrath**. From my view as a legal matter, this is a process that's going to involve several months, several months. Now, maybe Mr. Hollerud has a different perspective but——

Mr. **Hollerud**. No. We have hours and months and months of work to do between now and when the thing is finalized and when the exchange would actually take place. So therefore, you know, we're projecting late 1984, maybe early 1985. It's not something that we're rushing into or going to force anybody into or anything along this line. It's something that we think is a viable program, and we advise everybody to take it to their legal counsel before that.

Senator **Baucus**. The fact of the matter is, as I understand it, you can't anyway until——

Mr. **Hollerud**. Until we have our filings in with the SEC and——

Senator **Baucus**. For effective vote here in Washington and also in——

Mr. **Hollerud**. Right.

Senator **Baucus** [continuing]. the States.

Mr. **Hollerud**. Right. Yes.

We are doing no solicitation in any way, shape, or form.

Mr. **McGrath**. Well, let me, just so that we don't have an error in the record, the filing permits what is known as an offering, which is a solicitation. In other words, there's no closing. I just want to—I mean I'm sure that's what they——

Senator **Baucus**. I guess one of the questions that still bothers me a little bit is how is this going to work? If I am a farmer, I am saddled with debt. How am I going to be more prosperous if there's no additional outside capital coming in?

Mr. **Hollerud**. If I may——

Senator **Baucus**. I mean how can 100 farmers—how can the 100 of us, do better under this arrangement when there's no outside capital to prop us up?

Mr. **Hollerud**. We can be no more than 30 percent total leveraged. If hypothetically, we have $400 million worth of property, the most mortgage we can assume on our total program would be $120 million. How do you arrive at that? For example, the farm that is debt-burdened, 100 percent leverage, if and only if we have the cooperation of the lending institutions and all of his creditors in taking units in lieu of debt are we going to be able to assist him. If they say exactly—you know, that, "No, we will not," then we may not be of assistance to that individual.

I would like to share with you some of the conversations that we have received and—from—in the last 2½ weeks from farmers, farm owners. I also may like to add that 30 percent of the inquiries that—and the calls that we have had have been on debt-free property. Approximately 20 percent are on farmers who have equity positions remaining and seeing it being eroded away.

---

[1] Information not available at time of going to press.

Approximately 50 percent are from dire financially strapped farmers. No way can we help all them. We've had calls from people who are in chapter 11, who are in chapter 7, saying, "Can you save us?" No, we can't. You know, at this particular time, we can't move that fast. And unless the courts would rule that the creditors take units in lieu of debt, we could not help.

But being in that position, we are in a very liquid position at 30 percent mortgage. The problem that we've been facing over the last few years is that we have been borrowing on the equity that inflation had made for us. And all of a sudden, we have deflation, and we still may have a number of farmers who have called and said: "I have equity in my farm but I can't borrow against it anymore. I can't get operating capital next year. If I am forced to sell today, I have no equity. In fact, I will not be able to pay off my mortgagors." I have sold some of those personally this spring.

Senator BAUCUS. How would you get operating capital, though, out of this plan?

Mr. HOLLERUD. If we relieved the long-term debt from the asset of the farm, and they still have their equipment, most lending institutions, if they are good farmers, will go with them.

Senator BAUCUS. They would do that anyway if they're in that position. The point is that——

Mr. HOLLERUD. The point is that right now that they're——

Senator BAUCUS. I think what would happen is that most of these guys would be off the farms in a couple of years because there just isn't anything—there's no money being put into it? I mean how could it be——

Mr. HOLLERUD. Where is the money being put in today on our farms? You know, the question is the farmer is saying to us that, "If I do have some equity, I can—I still will have my cattle, I will still have my machinery. I will have those maybe free and clear, maybe mortgaged. I don't know." But he—at least he can get operating capital to put his crops back in.

Mr. MCGRATH. Dick, let me just ask what the profit or the yield, the revenues from a good acreage in Iowa from your hometown would yield? How much revenue per acre would a person get, assuming no debt? I mean what's the revenue?

Mr. HOLLERUD. Gross?

Mr. MCGRATH. Yes.

Mr. HOLLERUD. Oh, $350 an acre—depending upon the price of corn.

Mr. MCGRATH. OK. And what would be the operating, the planting costs?

Mr. HOLLERUD. Planting costs for corn right now are somewhere around $145 per acre.

Mr. MCGRATH. OK. $145. And if they rented that land, is that $2,000-an-acre land or $1,500-an-acre land?

Mr. HOLLERUD. $2,000-an-acre land.

Mr. McGrath. OK. So under the program, their costs would be about $300, $280, $290, $300 an acre; and the yield might be about $350 an acre?

Mr. Hollerud. Yes.

Mr. McGrath. Now, if you substitute 70 percent debt with principle and interest, what would happen—what additional cost per acre do you put on that? I guess we could do the arithmetic of, say, an extra $1,500 of debt, even at 10 percent, is $150. So it's pretty clear, on $350 yield and $450 of expenses, that that farmer is losing equity every year.

Under this proposal of Consolidated Family Farms, if in fact the farm could be recapitalized so that a portion of that debt could be converted to equity, that's really the essence of the program, is a conversion of debt to equity.

Senator Baucus. Now, how do you do that? Is it just magic?

Mr. McGrath. Well, no, no. It's the person holding the debt has to agree to it.

Senator Baucus. The banks?

Mr. McGrath. Well, it's oftentimes——

Senator Baucus. He doesn't get equity. He just gets a slip of paper.

Mr. McGrath. Well, that's an equity security.

Senator Baucus. Well, but we all know what it's worth.

Mr. McGrath. You're correct. We don't know what it's worth. And he has to make that decision. He doesn't know what it's worth either. It's going to be worth what the marketplace decides. I can't predict that, you can't predict that.

Senator Baucus. That's true. But what backs up that piece of paper?

Mr. McGrath. Just the same thing that backs up——

Senator Baucus. Nothing.

Mr. McGrath [continuing]. A stock of General Motors. What backs up your——

Senator Baucus. No, there's a difference. The difference between a share of——

Mr. McGrath. I mean I don't want to compare this, to say that we're General Motors. I am just saying that securities are traded, the newspapers are filled with quotes and their distributions, and this is what's been happening——

Senator Baucus. No, here's the difference.

Mr. McGrath. OK.

Senator Baucus. Here's the difference as I see it. The stock of General Motors——

Mr. McGrath. Let's not use General Motors. Let's use, you know, some small company, over-the-counter job.

Senator Baucus. Any company. Now, my recollection of corporate law from law school is really hazy. But as I recall, a shareholder is entitled to basically their prorata share of any of the assets of the company or the corporation, because there are certain rights that that shareholder is entitled to which are far and above and beyond the rights of a holder of one of these certificates.

Mr. McGrath. I think it's a right to dividends.

Senator Baucus. Therefore—and it's just my personal gut feeling—the market for these slips of paper is not going to be near what a potential market might be of common stock, and that therefore there's no magic debt-into-equity because there's no equity here to speak of.

Mr. **McGrath**. We did a——

Senator **Baucus**. That's just how I see it.

Mr. **McGrath**. Sure. We did a spinoff rather recently of—my office did—for Masonite Corp., which severed its timber properties into a partnership called Timber Realization. And you know, there's a situation where we put a—a partnership was established with the property, much the same way. The only assets were the property going into it. And a trading market very rapidly developed for those securities. I mean in fact, a trading market developed instantaneously and has been very active ever since.

Senator **Baucus**. What were the securities?

Mr. **McGrath**. It was just a limited partnership interest.

Senator **Baucus**. But these aren't limited partnership interests we're talking about here. We're talking about another animal.

Mr. **McGrath**. OK. Well, the evidence—you know, depository receipts have been traded frequently. The Apache Programs have depository receipts. In fact, Masonite—I am sorry, I really do want to correct myself, but the Timber Realization had depository units. The typical——

Senator **Baucus**. Well, I can't speak to that because we're not talking about that.

Mr. **McGrath**. Yes. I am just saying, typically, when a public partnership has a security that's traded, if it's a partnership, rather than having the partnership interest traded, you have depository receipts traded. And that's governed, in part, by tax laws and partnership laws relating to when and how a person can become a limited partner.

Senator **Baucus**. Well, I appreciate all this. Frankly, I have no more questions, except to say I think the basic problem here is farmers, as Senator Pressler pointed out, just face high costs, high interest rates, low commodity prices. Most of the people we're talking about here would like to farm, would like to stay on the farm, would like to pass it on to their families. We're talking about family farms here.

And the real effort, I think, should not be so much whether to pursue something like this, although they're certainly entitled to do so. The effort should be to get these budget deficits down. And I mean that in a very sincere way. Congress and the President are both to be blamed here for not doing more. And I think once we do that, we're going to find interest rates start coming down so that farmers can farm.

Second, this country has to much more aggressively market its products overseas and much more aggressively stand up to other countries who compete against us in marketing agricultural products. I don't think most Americans understand the degree to which other countries work part and parcel with their producers and with their companies, to our disadvantage.

I think that is what most farmers want. They want lower interest rates, and they want better prices. And they deserve better prices. To the degree that that cannot be accomplished, maybe some other refinancing arrangements are appropriate. And this may or may not be one. We've asked a lot of questions, and you've given a lot of answers. But that's basically a judgment for each farmer to make.

But I would hope that farmers can stay on the farm and own it outright, and with lower interest rates and better prices for their crops.

Thank you, Mr. Chairman.

Senator **Pressler**. Thank you, Senator Baucus. I concur in those remarks.

Senator, I think we're nearing 10 years of working together. We're turning gray together in Congress.

Senator **Baucus**. Ten years. That's right.

Senator **Pressler**. At least I am.

We have additional questions from the staff on some of the technicalities, which we will submit to you.

[Subsequent information was received and follows:]

LOWELL WEICKER, JR., CONN., CHAIRMAN
BOB PACKWOOD, OREG.
ORRIN G. HATCH, UTAH
RUDY BOSCHWITZ, MINN.
SLADE GORTON, WASH.
DON NICKLES, OKLA.
WARREN RUDMAN, N.H.
ALFONSE M. D'AMATO, N.Y.
BOB KASTEN, WIS.
LARRY PRESSLER, S. DAK.
DALE BUMPERS, ARK.
SAM NUNN, GA.
WALTER D. HUDDLESTON, KY.
JAMES R. SASSER, TENN.
MAX BAUCUS, MONT.
CARL LEVIN, MICH.
PAUL E. TSONGAS, MASS.
ALAN J. DIXON, ILL.
DAVID L. BOREN, OKLA.
ROBERT J. DOTCHIN, STAFF DIRECTOR
R. MICHAEL HAYNES, CHIEF COUNSEL
ALAN L. CHVOTKIN, MINORITY CHIEF COUNSEL

United States Senate
COMMITTEE ON SMALL BUSINESS
WASHINGTON, D.C. 20510

August 27, 1984

Mr. Richard C. Hollerud
Partner
Farm Management Company of
America
Suite 208
505 North Lake Shore Drive
Chicago, Illinois 60611

Dear Mr. Hollerud:

We would like to extend our thanks to you for testifying before the Senate Small Business Committee's Subcommittee on Small Business: Family Farm August 1, 1984 hearing, concerning the issue of Corporate Buy Outs of Family Farms. Your testimony will be very helpful to the Members of the Committee.

Due to the time constraints of the hearing, several important points raised by your written statement and oral testimony were not fully explored. In order to make the hearing record complete, the Committee would greatly appreciate it if you would provide written responses to the attached questions, which will be included in the printed hearing record:

(1) During the hearing, Mr. Southard, the Kansas Deputy Attorney General, was asked the question, "Why was the Consolidated Family Farms' plan so complicated?" It was suggested that the same question be asked of the Consolidated Family Farms. Would you explain why the plan seems so complex with so many different groups and partnerships involved.

What plans, if any, do you have to make this proposal less complex and more understandable?

(2) As you know, several other farmland investment plans, such as the Agricultural Land Fund I in 1977, have been developed. How does the plan of the Consolidated Family Farms differ and how is it similar to these plans?

What are the differences in the tax consequences and benefits between these plans and the Consolidated Family Farms plan?

(3) The American family farm has been the most productive agricultural system in the world. Yet, as you know, many farmers are currently in financial trouble. If these individual family farmers who are so efficient cannot make a profit, how does your much larger and very likely less efficient partnership expect to make a profit? Won't you face the same problems all farmers face--high production costs and depressed farm prices? What will be the difference?

(4) What do you think would happen to the value of the units in your partnership if the farmland values continue to decline? Wouldn't this also reduce the value of the units? Please explain in detail.

In order to expedite the printing of this hearing, we would appreciate receiving the answers to the above questions by September 10th.

Again, thank you for your participation at this important Committee hearing, and for promptly furnishing the responses to our questions for the record.

Sincerely,

Larry Pressler

LARRY PRESSLER
Chairman, Subcommittee on
Small Business: Family Farm

LOWELL WEICKER, Jr.
Chairman
Senate Committee on
Small Business

Phone: 1(312) 661-7000-1

CONSOLIDATED FAMILY FARMS

SUITE 208 • LAKE POINT TOWER • 505 N. LAKE SHORE DRIVE • CHICAGO, IL 60611

September 13, 1984

United States Senate
Committee on Small Business
Washington, D.C. 20510

Gentlemen:

In response to your letter dated August 27, 1984, a copy of which is enclosed, we wish to provide the following responses:

1. The laws of many states impose restrictions on who can own farmland. In general, these restrictions are designed to prevent or limit alien ownership of land as well as, in some states, to prevent "corporate" ownership of farmland. By structuring the offering with two tiers of ownership (i.e., one entity serving as the exchange entity and then transferring the land to a second entity by which operations will be carried on with the original exchange entity becoming a security holder in the operating entity) the organizers have attempted to satisfy the requirements of these laws, implement the spirit of these laws and at the same time permit the organization of the program and the realization of its objectives.

   There are also tax laws and extensive regulations applicable to the tax-free exchange and structure has, in part, been dictated by these. Securities laws, both federal and state, have also been considered. There has been an effort to separate function so that the compensation for each function can be clearly identified as well as the people responsible for performing it. These functions include real estate brokerage services (for which licensing is required as a realtor by state laws), investment advisory services (for which licensing is required under federal and state laws), farm management services (for which experience is required), and administrative services. Thus, if the Company and its owners are not satisfied with the manner in which these services are being performed, they may be terminated and replaced by others without disrupting the functions which are being performed satisfactorily. Moreover, since different people are involved in the different affiliated entities, it would be inappropriate and perhaps impossible to roll them all into one entity.

2. There probably have been many farmland investment plans developed of which the organizers are not aware. As to Agricultural Land Fund I and most plans of which the organizers are aware, these plans called for a cashout of the farmers. They really were nothing new. They were simply bigger.

   The proposed plan is believed to be unique and unlike anything ever offered to farmers before. It is not a buyout of the farmer. It provides for a tax-free conversion of the farmer's investment in land into securities which are intended to be marketable. At the same time, however, the farmer will continue to have an equity stake in not only his or her own land but in the diversified pool of farm properties which are contributed to the fund. Thus the farmer will continue to be able to identify with the land and enjoy the fruits therefrom but will gain liquidity and diversification.

   The plan as proposed was intended, and so restructured will guarantee, to each farmer and his or her family the ongoing right (so long as rents are paid, the property is properly maintained and the farm family continues to hold a meaningful number of the shares received in exchange for the property) to lease and work the land contributed, to stay on the land, to buy the property back at the appraised price in the event it is offered for sale and at least a one-time right in the future to require the Company to sell the property back to the farmer at the appraised price.

   As restructured, the program will provide significant voting rights for the farmers who contribute land and continue to hold securities. These include the rights of security holders or their elected representatives to approve all leases, to approve all sales of property, to approve annually the auditors and independent appraisal firm, to remove the organizers from management during the first 5 years for failure to perform the services required and after 5 years for any reason at all and any new issuances of securities.

3. We sincerely question your assumption that the proposed plan will be less efficient. At the present time, many of the decisions which the American farmer makes are in response to the requirements of lenders and the financial constraints under which the farmer operates. These decisions include fundamental decisions such as what crops to plant and how and when to market. If farmers are able to use the proposed program to recapitalize some of their debt into equity, their debt burden will be relieved, their interest cost reduced and their constraint by the lenders' requirements eliminated. Again, the proposed program does

not contemplate a buy-out of the farmer but an association of farmers in an entity which they will own and control. We reject the assumption that the farmer will be less concerned about the operation and results of a Company in which he is a security holder and from which he expects to derive regular cash flow than such farmer would be about ownership of the land itself (in which the farmer's equity is often only a small fraction of the total equity). Moreover, if the farmer continues to lease the farm and live on it and work it, it seems that he will be no less concerned about maintaining such land. It is expected that the farmer may benefit from the periodic review of his stewardship of such land by the Company's representatives and by his fellow farmer-securityholders.

4. It is anticipated that the value of the Company's securities will rise and fall in response to changes in value of its assets (the farmland) and its cash flow (based on value).

Very truly yours,

Richard C. Hollerud

Richard C. Hollerud

RCH/mg
Enc.

Senator **Pressler**. Let me say that I thank you for coming to state your points of view. You're right, there is a great interest in this subject of farm finance and of the problems. Let me say that I think that you have attracted as many television cameras as the Secretary of State does when he comes up here.

Senator **Baucus**. Oh, I thought it was you, Mr. Chairman. [Laughter.]

Senator **Pressler**. Oh, I'm not so foolish to believe that.

But I did state my conclusions about this issue. I think there are four areas where people are not being told the whole story. We have to be very careful in that area. We will circulate your comments to committee members, and take a very close look.

I feel personally that what would really happen under this would be that after a year or two, most of the family farmers would not be able to afford to renew their rent leases or the land would be sold, and eventually we'd have giant corporate farming. There was nothing said here today that persuaded me otherwise. Under the scheme the rights of the individual farmer would be so very little.

But in any event, I thank you for being here. I thank all of our witnesses. I conclude this hearing. I am going to keep the record open for 2 weeks for any additional comments you may have. Other senators may also be submitting written questions to various witnesses for the complete record.

The hearing is concluded.

[Whereupon, at 12:46 p.m., the subcommittee was adjourned.]

○